



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2012

RICK SNYDER, CPA
Governor

JOHN E. NIXON, CPA
State Budget Director

MICHAEL J. MOODY, CPA
Director
Office of Financial Management

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STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

RICK SNYDER
GOVERNOR

JOHN E. NIXON, CPA
DIRECTOR

February 28, 2013

The Honorable Rick Snyder, 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, 2012.

INTRODUCTION TO THE REPORT

Responsibility: The State Budget Office, 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 State Budget Office is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State of Michigan Deferred Compensation Funds, the State of Michigan Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the State Budget Office relies upon the controls in place at the various State departments and agencies.

Act 431 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, 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 Internal Audit Services (OIAS) provides internal audit services to executive branch departments and agencies. OIAS performs periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, OIAS also reviews department and agency management's processes for establishing, monitoring, and reporting on internal controls; advises department and agency management on internal control matters; and assists 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 ten of the State's universities) 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, 2012 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2012 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 233 of 2012, an annual statewide single audit will be conducted for applicable State departments, agencies and component unit authorities, and will result in a separately issued audit report.

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 immediately follows 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: As of February 28, 2013, the Executive Branch consisted of 16 principal departments. Thirteen 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, capital projects, and permanent funds), the State 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

Economic Growth: Creating an environment that promotes growth in the Michigan economy is the top priority of the Snyder administration. To continue growing the Michigan economy, the fiscal year 2013 budget includes \$222 million in funding for economic development to assist Michigan businesses, with a continued emphasis on economic gardening. The fiscal year 2013 budget also includes an additional \$9.8 million that is targeted to support community employment programs in Michigan's distressed cities.

During fiscal year 2012, the administration reached an agreement with Canada that lays the groundwork for the New International Trade Crossing (NITC). The agreement positions Michigan to thrive in the global economy while protecting the state from shouldering the project's costs. The NITC will provide a modern, strategically located bridge between Detroit and Windsor that is vital to enhancing the trade relationship between Michigan and Canada. It is expected to generate thousands of short and long-term jobs, open new trade markets, strengthen economic security, and ease traffic congestion.

Recognizing that infrastructure paves the way to economic growth, Governor Snyder's fiscal year 2014 executive budget recommendation includes proposals to address the issue of Michigan's deteriorating road system. The Governor's recommendation proposes stable and sustainable funding sources that are sufficient to improve and maintain Michigan's roads, bridges, and other highway infrastructure.

Fiscal Stability: Now that Michigan has eliminated its structural budget deficit, Governor Snyder is committed to building the state's savings and reducing the state's long-term liabilities. During fiscal year 2012, deposits into the Budget Stabilization Fund (or Rainy Day Fund) increased the fund's balance from \$2.2 million to \$365.1 million. The fiscal year 2013 budget includes an additional deposit of \$140 million and the fiscal year 2014 executive budget recommends \$75 million more. As a result, the Budget Stabilization Fund balance is projected to reach \$580.1 million by September 30, 2015.

In addition, the state has reduced its unfunded long-term liabilities by over \$20 billion by prefunding retiree health care benefits and implementing various pension and retiree health care reforms for both state and public school employees. Paying down these liabilities improves Michigan's fiscal stability, while ensuring that employees can count on promised benefits when they retire.

Transparency and Accountability: Governor Snyder's ongoing commitment to government transparency and accountability is demonstrated by the continued evolution of Open Michigan, which is available online at www.michigan.gov/openmichigan. Open Michigan includes performance management information which consists of the Michigan Dashboard, as well as dashboards specific to education, health and wellness, infrastructure, talent, public safety, energy and environment, and financial health. In addition, scorecards are now included that track how Michigan government is performing within each of its agencies.

Open Michigan also includes spending and accountability information that provides a one-stop resource showing how the state manages and spends taxpayer dollars.

The spotlight cast by Open Michigan requires that elected officials and state leaders continually evaluate the efficiency and effectiveness of programs to determine if they are delivering the desired results. Further, it provides an honest representation of where Michigan stands relative to national benchmarks, identifying strengths, but also illuminating areas where improvement is needed.

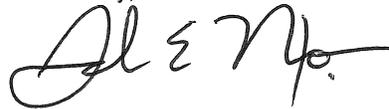
AWARDS AND ACKNOWLEDGEMENTS

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, 2011. 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.

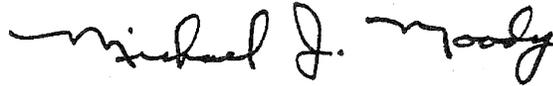
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 25 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine 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 Office of Internal Audit Services; the chief financial officers, chief accountants, 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,



John E. Nixon, CPA
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, 2011

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.



Christopher P. Moivell

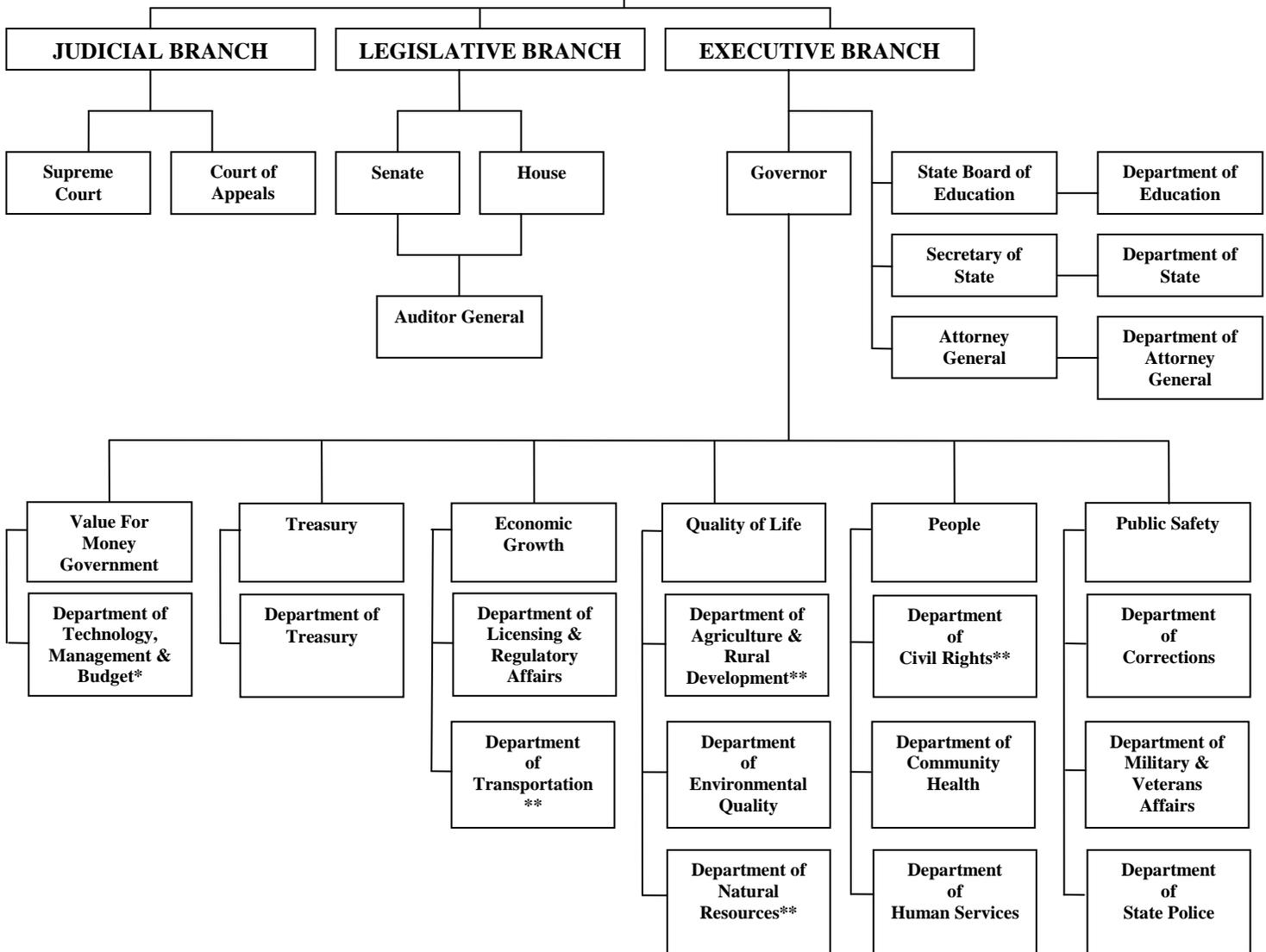
President

Jeffrey R. Emer

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE

(As of February 28, 2013)



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

STATE OF MICHIGAN

PRINCIPAL STATE OFFICIALS

(As of February 28, 2013)

JUDICIAL BRANCH

Supreme Court Justices
Honorable Robert P. Young, Jr, Chief Justice
Honorable Michael F. Cavanagh, Justice
Honorable Mary Beth Kelly, Justice
Honorable Stephen J. Markman, Justice
Honorable Bridget Mary McCormack, Justice
Honorable David F. Viviano, Justice
Honorable Brian K. Zahra, Justice

LEGISLATIVE BRANCH

Honorable Randy Richardville
Majority Leader of the Senate

Honorable Jase Bolger
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable Rick Snyder, Governor
Honorable Brian Calley, Lt. Governor
Honorable Bill Schuette, Attorney General
Honorable Ruth Johnson, Secretary of State

Group Executives

John E. Nixon, Value for Money Government
Andy Dillon, Treasury
Michael A. Finney, Economic Growth
Dan Wyant, Quality of Life
James K. Haveman, People
Major General Gregory J. Vadnais, Public Safety

Daniel H. Heyns, Director
Department of Corrections

Dan Wyant, Director
Department of Environmental Quality

Maura D. Corrigan, Director
Department of Human Services

State Board of Education

John C. Austin, President
Casandra E. Ulbrich, Vice President
Daniel Varner, Secretary
Richard Zeile, Treasurer
Michelle Fecteau
Lupe Ramos-Montigny
Kathleen Straus
Eileen Weiser
Honorable Rick Snyder (Ex Officio)

Steve Arwood, Director
Department of Licensing and Regulatory Affairs

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs

Michael P. Flanagan

Superintendent of Public Instruction

Natural Resources Commission

J.R. Richardson, Chair
Louise Klarr
John Madigan
John Matonich
Tim Nichols
Rex E. Schlaybaugh, Jr.
Annoesjka Steinman

Keith Creagh, Director
Department of Natural Resources

Michigan Commission of Agriculture & Rural Development

Bob Kennedy, Chair
Diane Hanson, Vice Chair
Trever Meachum, Secretary
Donald Coe
Fred Walcott
Jamie Clover Adams, Director, Department of Agriculture & Rural Development

Colonel Kriste Etue, Director
Department of State Police

Civil Rights Commission

J. Michael Zelle, Chair
Lisa Peeples-Hurst, Vice Chair
Jared Rodriguez, Secretary
Stephanie A. Comai, Treasurer
Agustin Arbulu
Arthur Horwitz
Deloris Hunt
Rasha Demashkieh

John E. Nixon, State Budget Director and Director,
Department of Technology, Management & Budget

Daniel Krichbaum, Director, Department of Civil Rights

Transportation Commission

Jerrold M. Jung, Chair
Todd Wyatt, Vice Chair
Lynn Afendoulis
Charles F. Moser
Michael D. Hayes
Sharon Rothwell

Kirk T. Steudle, Director
Department of Transportation

Civil Service Commission

Thomas M. Wardrop, Chair
James Barrett
Charles Blockett, Jr.
Robert W. Swanson

Andy Dillon
State Treasurer

Janet McClelland, Acting State Personnel Director

James K. Haveman, Director
Department of Community Health



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 Rick Snyder, 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 fiscal year ended September 30, 2012, 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, Unemployment Obligation Trust Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Farm Produce Insurance Authority, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Early Childhood Investment Corporation, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/Additions
Governmental activities	1.8%	2.5%
Business-type activities	97.2%	91.6%
Aggregate discretely presented component units	46.9%	68.1%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	5.5%	12.5%

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 in 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

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

The Honorable Rick Snyder, Governor
Members of the Legislature
Page 2

As discussed in Notes 6 and 23 to the basic financial statements, the State of Michigan replaced its Single Business Tax with the Michigan Business Tax, effective January 1, 2008. Effective January 1, 2012, the State of Michigan replaced its Michigan Business Tax with the Corporate Income Tax.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 26, budgetary comparison schedules and corresponding notes on pages 120 through 123, and information about infrastructure assets reported using the modified approach on pages 124 and 125 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining and individual fund statements and schedules - non-major funds 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Sincerely,

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

Thomas H. McTavish, C.P.A.
Auditor General
February 28, 2013



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, 2012. 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, 2012, the State's assets exceeded its liabilities by \$17.5 billion.
- The State's unrestricted net assets were negative \$5.3 billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- Revenues of \$56.1 billion supported expenses of \$51.8 billion during fiscal year 2012. As a result, the State's total net assets increased by \$4.3 billion (32.5 percent). The increase in net assets relates mostly to the elimination of the deficit in the Michigan Unemployment Compensation Funds as described below.

Fund Level

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$5.5 billion. Governmental fund balances increased \$563.5 million (11.3 percent) from the prior year.
- The State's two major governmental funds, the General Fund and the School Aid Fund, closed the fiscal year with a combined fund balance of \$2.9 billion, an increase of \$454.5 million (18.6 percent) from the prior year. Of the total General Fund balance of \$2.5 billion, \$1.0 billion is unassigned and, therefore, available for appropriation in future years. The remaining \$1.5 billion is either non-spendable (e.g., consists of assets not easily converted to cash, such as inventories); restricted for specific purposes by enabling legislation; committed to specific programs or projects by legislative action; or assigned to fulfill contractual obligations. In the School Aid Fund, the entire fund balance of \$440.1 million is restricted for education purposes.
- The State's proprietary funds reported net assets at year-end of \$1.5 billion. This represents an increase of \$4.1 billion (158.5 percent) compared to the prior year-end, primarily resulting from the repayment of federal advances by the Michigan Unemployment Compensation Funds using proceeds from a Michigan Finance Authority bond issuance.

Long-term Debt

- The State's total long-term bonded debt as of September 30, 2012 was \$7.4 billion, an increase of \$21.4 million from the prior year. The increase represents the net difference between new issuances, payments, and refundings of debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 20.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Net Assets (pages 28 and 29) 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 30 and 31) 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 11 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 35 and 37) 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
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

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Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
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 55 of this report.

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

The fund financial statements begin on page 34 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 136 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 46. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information (RSI)

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets increased \$4.3 billion (32.5 percent) over the course of this fiscal year's operations. The net assets of the governmental activities increased by \$234.4 million (1.5 percent), which includes current year activity of \$237.3 million and a beginning balance reduction of \$2.9 million. Business-type activities had an increase of \$4.1 billion (146.2 percent).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other non-current assets	\$13,245.4	\$12,218.5	\$ 1,750.2	\$ 915.9	\$14,995.6	\$13,134.5
Capital assets	21,795.2	21,485.8	.3	.6	21,795.6	21,486.4
Total assets	<u>35,040.6</u>	<u>33,704.3</u>	<u>1,750.5</u>	<u>916.5</u>	<u>36,791.2</u>	<u>34,620.8</u>
Current liabilities	5,776.9	5,499.1	217.3	217.0	5,994.2	5,716.0
Long-term liabilities	13,020.8	12,196.7	250.3	3,478.7	13,271.1	15,675.4
Total liabilities	<u>18,797.8</u>	<u>17,695.8</u>	<u>467.5</u>	<u>3,695.6</u>	<u>19,265.3</u>	<u>21,391.5</u>
Net assets:						
Invested in capital assets, net of related debt	18,198.3	17,782.1	.3	.6	18,198.7	17,782.7
Restricted	3,394.2	3,552.1	1,276.7	131.5	4,670.9	3,683.5
Unrestricted	(5,349.7)	(5,325.6)	5.9	(2,911.2)	(5,343.7)	(8,236.8)
Total net assets	<u>\$16,242.9</u>	<u>\$16,008.5</u>	<u>\$ 1,283.0</u>	<u>\$ (2,779.1)</u>	<u>\$17,525.9</u>	<u>\$13,229.4</u>

The largest component of the State's net assets, at \$18.2 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 \$4.7 billion of the total. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation limiting how they can be used. The State's unrestricted net assets were negative \$5.3 billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

Michigan

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

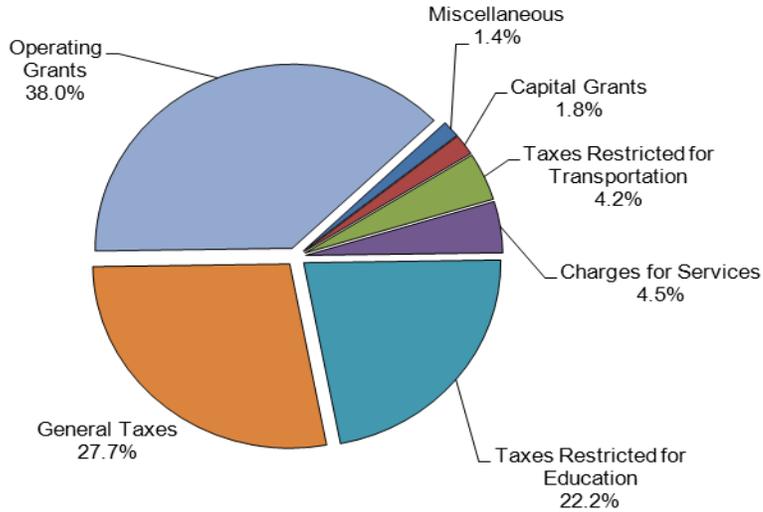
Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 2,057.7	\$ 1,762.0	\$ 6,821.7	\$ 7,616.3	\$ 8,879.3	\$ 9,378.3
Operating grants	17,373.3	19,609.0	251.8	172.0	17,625.1	19,781.0
Capital grants	845.9	1,061.7	-	-	845.9	1,061.7
General revenues						
General taxes	12,690.4	12,313.1	15.7	14.9	12,706.1	12,328.0
Taxes restricted for educational purposes	10,164.4	10,622.5	-	-	10,164.4	10,622.5
Taxes restricted for transportation purposes	1,919.2	1,914.9	-	-	1,919.2	1,914.9
Unrestricted investment and interest earnings	.7	.7	.1	.2	.8	.9
Miscellaneous	659.8	648.3	3,320.9	.6	3,980.7	648.9
Total revenues	<u>45,711.3</u>	<u>47,932.2</u>	<u>10,410.3</u>	<u>7,804.1</u>	<u>56,121.6</u>	<u>55,736.3</u>
Expenses						
General government	2,491.3	2,286.4	-	-	2,491.3	2,286.4
Education	14,601.2	15,269.6	-	-	14,601.2	15,269.6
Human Services	5,953.9	6,423.3	-	-	5,953.9	6,423.3
Public safety and corrections	2,816.6	2,863.9	-	-	2,816.6	2,863.9
Conservation, environment, etc.	657.5	575.1	-	-	657.5	575.1
Labor, commerce, and regulatory	956.4	1,179.0	-	-	956.4	1,179.0
Health services	13,722.8	13,917.2	-	-	13,722.8	13,917.2
Transportation	2,841.0	2,460.6	-	-	2,841.0	2,460.6
Tax credits	1,226.3	1,271.9	-	-	1,226.3	1,271.9
Intergovernmental – revenue sharing	1,032.2	1,091.5	-	-	1,032.2	1,091.5
Interest on long-term debt	196.0	217.0	-	-	196.0	217.0
Liquor Purchase						
Revolving Fund	-	-	696.7	660.9	696.7	660.9
State Lottery Fund	-	-	1,654.2	1,631.5	1,654.2	1,631.5
Attorney Discipline System	-	-	4.8	4.9	4.8	4.9
Michigan Unemployment Compensation Funds	-	-	2,991.5	4,350.1	2,991.5	4,350.2
Total expenses	<u>46,495.2</u>	<u>47,555.6</u>	<u>5,347.3</u>	<u>6,647.5</u>	<u>51,842.4</u>	<u>54,203.1</u>
Excess (deficiency) Before Contributions and Transfers	(783.9)	376.6	5,063.0	1,156.6	4,279.1	1,533.2
Contributions to permanent fund principal	20.4	28.8	-	-	20.4	28.8
Transfers	1,000.8	918.0	(1,000.8)	(918.0)	-	-
Increase (decrease) in net assets	237.3	1,323.3	4,062.1	238.7	4,299.5	1,562.0
Net assets – beginning (restated)	16,005.5	14,685.2	(2,779.1)	(3,017.8)	13,226.4	11,667.4
Net assets – ending	<u>\$ 16,242.9</u>	<u>\$ 16,008.5</u>	<u>\$ 1,283.0</u>	<u>\$ (2,779.1)</u>	<u>\$ 17,525.9</u>	<u>\$ 13,229.4</u>

Governmental Activities

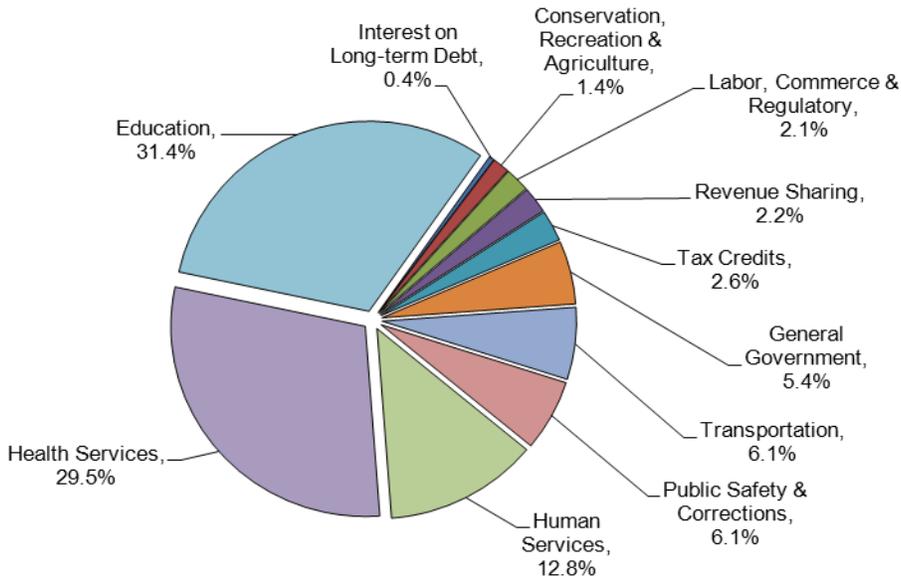
Revenues to fund governmental activities totaled \$45.7 billion for fiscal year 2012. As shown in the accompanying chart, 38.0 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 26.4 percent for educational and transportation purposes. Only 27.7 percent of the revenues were available for general use.

Revenues - Governmental Activities for Fiscal Year Ending September 30, 2012
(\$45.7 billion)



Expenses related to governmental activities totaled \$46.5 billion during fiscal year 2012. 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 60.9 percent of the spending.

Expenses - Governmental Activities for Fiscal Year Ending September 30, 2012
(\$46.5 billion)



Business-type Activities

The business-type activities' net assets increased \$4.1 billion (146.2 percent) during the fiscal year. Factors contributing to these results included:

- The Michigan Unemployment Compensation Funds (MUCF) finished the fiscal year with an increase in net assets of \$4.1 billion. During the fiscal year, MUCF received the proceeds of a bond issuance by the Michigan Finance Authority (a discretely presented component unit) and used those proceeds to repay federal advances received in prior years, thus eliminating a fund deficit of \$2.8 billion from the prior year.
- The State Lottery Fund's net assets increased \$4.5 million (14.8 percent). The increase in net assets is attributable to the changes in the market value of investments that the Lottery holds to fund future payments due on lottery prizes.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$5.5 billion. Of this amount, \$979.2 million constitutes unassigned fund balance in the General Fund, which is available to appropriate in future years. Of the total governmental fund balances, \$1.2 billion are in nonspendable form made up of amounts legally or contractually required to be maintained intact including permanent fund endowments and assets that will not be converted to cash in the short term including consumable inventories. Another \$2.5 billion of the governmental fund balances are restricted for specific purposes by enabling legislation, the majority of which is legally restricted for capital projects. Committed governmental fund balances totaled \$1.0 billion as of the end of the fiscal year representing funding set aside for multi-year projects and earmarked revenue carried forward with legislative authority for specific ongoing programs. Another \$68.6 million of the governmental fund balances are assigned for encumbered services and goods to be received after the end of the fiscal year. Two capital projects funds reported negative unassigned fund balances totaling \$144.8 million due to expenditures incurred in advance of bonding proceeds which will be received after the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2012, the General Fund unassigned fund balance was \$979.2 million and the fund balance components set aside for specific purposes totaled \$1.5 billion. Spending reductions and stabilized revenues helped the General Fund finish the year with an increase in fund balance of \$768.0 million (45.5 percent). Included within the General Fund's committed fund balance is \$365.1 million in the Counter-Cyclical Budget and Economic Stabilization Fund. This fund, also referred to as the Rainy Day Fund, is used to stabilize government programs in times of economic downturn.

General Fund Budgetary Highlights:

The State's economic condition improved in fiscal year 2012 and allowed the State to authorize additional expenditures after the initial budget. During the year, the General Fund budget was amended several times. The Legislature passed various supplemental appropriation bills which resulted in a net increase in general fund - general purpose appropriations of \$201.6 million over the original budget for the year.

Differences between the final budget (\$28.8 billion) and actual spending (\$28.7 billion) result from spending authority lapses of \$100.3 million and restricted revenue authorized, but not spent, of \$18.3 million. At fiscal year-end, excess restricted revenue of \$984.0 million was carried forward into fiscal year 2013 and is available for appropriation.

All agencies finished the year with net lapses. However, Community Health reported line item overexpenditures of \$.8 million.

School Aid Fund

Fund balance at September 30, 2012, totaled \$440.1 million, a decrease of \$313.4 million from the prior year. Revenues and transfers to the fund totaled \$12.9 billion, down \$917.3 million from the prior year. In fiscal year 2012, tax revenues deposited in the fund decreased \$379.0 million. Federal funds collected by the School Aid fund were down \$649.6 million over the prior year. Expenditures and transfers to other funds totaled \$13.2 billion, a decrease of \$109.7 million over the previous year. The School Aid Stabilization Fund ended the year with \$254.1 million in restricted fund balance.

Michigan

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2012, the State had invested \$21.8 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$227.4 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 3,429.7	\$ 3,418.1	\$ -	\$ -	\$ 3,429.7	\$ 3,418.1
Land improvements and other assets	123.1	120.0	-	-	123.1	120.0
Land rights	45.6	45.1	-	-	45.6	45.1
Buildings and improvements	2,054.4	2,084.6	-	-	2,054.4	2,084.6
Equipment	154.7	161.8	.4	.6	155.0	162.4
Computer software	249.0	195.7	-	-	249.0	195.7
Infrastructure	13,621.6	13,315.9	-	-	13,621.6	13,315.9
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	<u>19,697.8</u>	<u>19,361.0</u>	<u>.4</u>	<u>.6</u>	<u>19,698.1</u>	<u>19,361.6</u>
Construction in progress	2,097.4	2,124.8	-	-	2,097.4	2,124.8
Total	<u>\$21,795.2</u>	<u>\$21,485.8</u>	<u>\$.4</u>	<u>\$.6</u>	<u>\$21,795.6</u>	<u>\$21,486.4</u>

The most significant impact on capital assets during the year resulted from partially completed road and bridge construction and repair projects which are reported within construction in progress.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,437 lane miles of roads and 4,773 bridges (spans in excess of 20 feet).

The State has 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 2011, indicated that 81.3% 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 (2012) indicated that the condition of the bridges improved from the prior year. For fiscal year 2012, 93.6% of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$197.2 million for fiscal year 2012. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA), a blended component unit of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. More detailed information regarding the State's long-term obligations is presented in Notes 13 and 15 to the financial statements.

Michigan

Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General obligation bonds (backed by the State)	\$2,018.3	\$1,889.2	\$ -	\$ -	\$2,018.3	\$1,889.2
Revenue bonds and notes (backed by specific tax and fee revenues)	5,339.4	5,447.1	-	-	5,339.4	5,447.1
Total	<u>\$7,357.7</u>	<u>\$7,336.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$7,357.7</u>	<u>\$7,336.3</u>

During the year, the State issued new bonds totaling \$360.3 million and refunding bonds totaling \$163.0 million. From the refunding bond proceeds, the State paid \$172.2 million to bond escrow agents to cover future debt service payments. The proceeds from the new bonds will provide funding for MDOT construction projects and state-owned and university-owned buildings.

Bond Ratings

The State's general obligations are rated AA- positive outlook by Fitch, AA- stable outlook by Standard & Poor's, and Aa2 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 2012, the State did not issue any general obligation short-term notes.

ECONOMIC CONDITION AND OUTLOOK

The U.S. economy has grown for 13 consecutive quarters following the end of the Great Recession, as measured by real gross domestic product (GDP). While the level of economic activity has been growing, many key economic variables have not yet rebounded to their pre-recession levels. U.S. payroll employment increased 1.1 percent in 2011 and another 1.4 percent during the first ten months of 2012, which combined represent an employment gain of 4.5 million. Despite this increase, U.S. payroll employment remains below the pre-recession peak level by 4.3 million jobs. The housing market, which collapsed during the Great Recession and remained at historically depressed levels in 2010 and 2011, finally showed some modest signs of recovery during the last half of 2012. The light vehicle sector, which remains a key component of the Michigan economy, has recovered markedly. After falling to a 27-year low of 10.4 million units in 2009, light vehicle sales rose to an estimated 14.4 million units in 2012. Nevertheless, vehicle sales remain below pre-recession sales levels.

During the ten years from 2001 to 2010, payroll employment in Michigan declined by 813,000 workers, which equates to losing about one out of every six jobs the State had in 2000. In 2011, payroll employment increased by 72,300 jobs or 1.9 percent and in 2012, it is estimated that it increased another 63,000 jobs or 1.6 percent. Michigan's unemployment rate fell to an estimated 8.5 percent in 2012, which is down 1.8 percentage points from the 2011 level and 4.9 percentage points below the 26-year high level posted in 2009. Michigan personal income increased an estimated 3.0 percent in 2012 and wage and salary payments, the largest component of personal income, rose an estimated 3.8 percent. While overall prices increased an estimated 2.6 percent in 2012, as measured by the Detroit CPI, real (inflation adjusted) personal income increased 0.4 percent.

In 2013, U.S. GDP is expected to increase 2.5 percent. Light vehicle sales are projected to increase to 15.1 million units in 2013, which would mark the fourth consecutive annual increase and the first year since 2007 that vehicle sales exceeded 15.0 million units. In addition, housing starts are projected to total 952,000 units, which despite representing a strong 28.6 percent increase, would still reflect a historically low level. In 2013, Michigan personal income is expected to increase by 2.6 percent while wages and salaries are expected to grow 3.7 percent. With inflation estimated at 1.9 percent, real personal income is projected to increase an estimated 0.7 percent. Michigan payroll employment is projected to rise 1.1 percent in 2013, which would mark the State's third straight annual employment increase. The state's unemployment rate is forecast to fall to 8.0 percent. This would be the State's lowest unemployment rate since 2007.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide 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 financial information can be obtained elsewhere on the Office of Financial Management website. You can also contact the office by phone at (517) 373-1010.

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) 373-1010.



II. FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

(In Thousands)

ASSETS	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
Current Assets:				
Cash	\$ 17,022	\$ 18,226	\$ 35,249	\$ 1,297,372
Equity in common cash (Note 5)	3,771,306	92,044	3,863,350	361,617
Taxes, interest, and penalties receivable (Note 6)	3,996,878	-	3,996,878	-
Internal balances	27,805	(27,805)	-	-
Amounts due from component units	2,566	498	3,063	19,294
Amounts due from primary government	-	-	-	258,447
Amounts due from federal government	1,357,219	290	1,357,509	81,748
Amounts due from local units	259,358	52,732	312,090	1,021,925
Inventories	40,368	11,748	52,117	25,962
Investments (Note 8)	253,748	990,241	1,243,990	1,668,025
Other current assets	793,125	343,863	1,136,988	574,743
Total Current Assets	10,519,396	1,481,837	12,001,233	5,309,134
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	-	48,825
Investments	-	-	-	424,011
Mortgages and loans receivable	-	-	-	36,728
Taxes, interest, and penalties receivable (Note 6)	227,504	-	227,504	-
Advances to primary government	-	-	-	1,028,015
Amounts due from federal government	19,632	-	19,632	-
Amounts due from local units	1,439,229	-	1,439,229	3,294,835
Mortgages and loans receivable	-	-	-	3,532,755
Investments (Note 8)	941,179	224,994	1,166,173	3,719,648
Land and property held for resale	-	-	-	20,879
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,511,262	-	3,511,262	134,406
Buildings, equipment, and other depreciable assets	5,801,815	4,923	5,806,738	5,459,990
Less accumulated depreciation	(2,920,325)	(4,568)	(2,924,893)	(2,238,382)
Infrastructure	13,305,025	-	13,305,025	102,758
Construction in progress	2,097,443	-	2,097,443	264,550
Total capital assets	21,795,220	355	21,795,575	3,723,321
Interest in joint ventures (Note 7)	33,473	-	33,473	-
Other noncurrent assets	65,010	43,329	108,339	839,767
Total Noncurrent Assets	24,521,247	268,678	24,789,925	16,668,783
Total Assets	\$ 35,040,643	\$ 1,750,515	\$ 36,791,158	\$ 21,977,917

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 84,985	\$ 1,404	\$ 86,388	\$ 75
Accounts payable and other liabilities	3,453,036	211,540	3,664,575	468,254
Income tax refunds payable (Note 16)	757,837	-	757,837	-
Amounts due to component units	233,236	2,512	235,748	19,323
Amounts due to primary government	-	-	-	4,710
Bonds and notes payable (Notes 13 and 14)	533,670	-	533,670	1,460,908
Interest payable	133,980	-	133,980	153,186
Deferred revenue	162,954	476	163,430	80,613
Current portion of other long-term obligations (Note 15)	417,237	1,331	418,567	179,065
Total Current Liabilities	<u>5,776,934</u>	<u>217,262</u>	<u>5,994,196</u>	<u>2,366,134</u>
Noncurrent Liabilities:				
Advances from component units	869,424	-	869,424	-
Advances from federal government	-	-	-	-
Prize awards payable (Note 15)	-	211,864	211,864	-
Deferred revenue	69,188	-	69,188	5,747
Bonds and notes payable (Notes 13 and 14)	7,085,135	-	7,085,135	13,514,381
Noncurrent portion of other long-term obligations (Note 15)	4,997,072	38,394	5,035,467	1,907,173
Total Noncurrent Liabilities	<u>13,020,819</u>	<u>250,259</u>	<u>13,271,078</u>	<u>15,427,301</u>
Total Liabilities	<u>\$ 18,797,753</u>	<u>\$ 467,521</u>	<u>\$ 19,265,275</u>	<u>\$ 17,793,435</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 18,198,345	\$ 355	\$ 18,198,700	\$ 2,155,871
Restricted For (Note 22):				
Education	809,465	-	809,465	163,837
Construction and debt service	-	-	-	3,417,744
Public safety and corrections	24,411	-	24,411	-
Conservation, environment, recreation, and agriculture	297,021	-	297,021	-
Health and human services	36,514	-	36,514	-
Transportation	786,583	-	786,583	-
Unemployment compensation	-	1,241,738	1,241,738	-
Labor, commerce, and regulatory	123,308	-	123,308	-
Other purposes	126,473	34,975	161,448	552,469
Funds Held as Permanent Investments:				
Expendable	254,065	-	254,065	67,518
Nonexpendable	936,372	-	936,372	336,985
Unrestricted	(5,349,668)	5,926	(5,343,743)	(2,509,942)
Total Net Assets	<u>\$ 16,242,889</u>	<u>\$ 1,282,994</u>	<u>\$ 17,525,883</u>	<u>\$ 4,184,483</u>

Michigan

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 2,491,270	\$ 844,661	\$ 120,502	\$ -
Education	14,601,171	15,688	2,113,263	-
Human services	5,953,946	69,219	4,867,149	-
Public safety and corrections	2,816,575	158,707	174,383	16,170
Conservation, environment, recreation, and agriculture	657,527	269,307	225,622	2,565
Labor, commerce, and regulatory	956,357	548,543	302,720	400
Health services	13,722,762	59,850	9,103,383	-
Transportation	2,840,961	91,690	466,311	826,738
Tax credits (Note 16)	1,226,300	-	-	-
Intergovernmental-revenue sharing	1,032,243	-	-	-
Interest on long-term debt	196,040	-	-	-
Total governmental activities	46,495,152	2,057,665	17,373,332	845,873
Business-type Activities:				
Liquor Purchase Revolving Fund	696,723	856,717	-	-
State Lottery Fund	1,654,234	2,430,281	15,573	-
Attorney Discipline System	4,818	5,166	-	-
Michigan Unemployment Compensation Funds	2,991,500	3,529,515	236,213	-
Total business-type activities	5,347,275	6,821,680	251,786	-
Total primary government	\$ 51,842,428	\$ 8,879,345	\$ 17,625,118	\$ 845,873
Total component units	\$ 8,135,453	\$ 2,612,346	\$ 2,007,656	\$ 69,941

General Revenues:

- Taxes:
 - General:
 - Sales and use
 - Personal income
 - Single business, Michigan business, and corporate income
 - Tobacco products
 - Beer, wine, and liquor
 - Insurance company
 - Quality assurance assessment
 - Penalties and interest
 - Other
 - Restricted For Educational Purposes:
 - Sales and use
 - Personal income
 - Education, property, and real estate transfers
 - Tobacco products
 - Beer, wine, and liquor
 - Casino gaming wagering
 - Other
 - Restricted For Transportation Purposes:
 - Sales and use
 - Gasoline and diesel fuel
 - Motor vehicle weight
 - Other
- Unrestricted investment and interest earnings
- Miscellaneous
- Contributions to permanent fund principal
- Payments from State of Michigan
- Transfers
- Total general and other revenue, payments, and transfers
- Change in net assets
- Net assets-beginning-restated
- Net assets-ending

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

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (1,526,108)	\$ -	\$ (1,526,108)	\$ -
(12,472,220)	-	(12,472,220)	-
(1,017,578)	-	(1,017,578)	-
(2,467,315)	-	(2,467,315)	-
(160,033)	-	(160,033)	-
(104,694)	-	(104,694)	-
(4,559,529)	-	(4,559,529)	-
(1,456,222)	-	(1,456,222)	-
(1,226,300)	-	(1,226,300)	-
(1,032,243)	-	(1,032,243)	-
(196,040)	-	(196,040)	-
(26,218,282)	-	(26,218,282)	-
-	159,994	159,994	-
-	791,621	791,621	-
-	348	348	-
-	774,228	774,228	-
-	1,726,190	1,726,190	-
(26,218,282)	1,726,190	(24,492,092)	-
-	-	-	(3,445,511)
2,735,674	-	2,735,674	-
6,119,213	-	6,119,213	-
1,294,287	-	1,294,287	-
586,108	-	586,108	-
133,276	15,737	149,013	-
290,383	-	290,383	-
955,029	-	955,029	-
163,496	-	163,496	-
412,904	-	412,904	-
5,515,083	-	5,515,083	-
2,121,630	-	2,121,630	-
1,939,493	-	1,939,493	-
371,774	-	371,774	-
41,065	-	41,065	-
115,753	-	115,753	-
59,568	-	59,568	-
98,101	-	98,101	-
940,099	-	940,099	-
875,952	-	875,952	-
5,027	-	5,027	-
710	139	849	38,076
659,801	3,320,915	3,980,716	345,631
20,359	-	20,359	-
-	-	-	684,929
1,000,841	(1,000,841)	-	-
26,455,626	2,335,949	28,791,575	1,068,636
237,344	4,062,139	4,299,483	(2,376,875)
16,005,545	(2,779,145)	13,226,400	6,561,357
\$ 16,242,889	\$ 1,282,994	\$ 17,525,883	\$ 4,184,483



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.

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, intermediate school districts, higher education and school employee's retirement systems 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 60% 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 128.

Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012
 (In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS				
Current Assets:				
Cash	\$ 7,344	\$ -	\$ 9,675	\$ 17,019
Equity in common cash (Note 5)	1,685,102	-	1,802,645	3,487,748
Taxes, interest, and penalties receivable (Note 6)	2,004,944	1,896,230	95,705	3,996,878
Amounts due from other funds (Note 18)	978,774	-	92,194	1,070,967
Amounts due from component units	463	-	2,103	2,566
Amounts due from federal agencies	1,001,715	55,524	299,980	1,357,219
Amounts due from local units	164,267	38,376	56,716	259,358
Inventories	11,432	-	15,422	26,854
Investments (Note 8)	-	-	253,748	253,748
Other current assets	543,964	13	222,129	766,106
Total Current Assets	<u>6,398,005</u>	<u>1,990,142</u>	<u>2,850,317</u>	<u>11,238,464</u>
Noncurrent Assets:				
Taxes, interest, and penalties receivable (Note 6)	164,488	60,618	2,398	227,504
Advances to other funds (Note 18)	5,616	-	-	5,616
Amounts due from federal agencies	19,632	-	-	19,632
Amounts due from local units	1,383,913	10,988	44,329	1,439,229
Investments (Note 8)	-	-	941,179	941,179
Other noncurrent assets	17,393	-	6,133	23,525
Total Noncurrent Assets	<u>1,591,041</u>	<u>71,605</u>	<u>994,038</u>	<u>2,656,685</u>
Total Assets	<u>\$ 7,989,046</u>	<u>\$ 2,061,747</u>	<u>\$ 3,844,355</u>	<u>\$ 13,895,149</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 79,038	\$ 234	\$ 5,272	\$ 84,545
Accounts payable and other liabilities (Note 23)	2,379,008	202,354	733,060	3,314,422
Income tax refunds payable (Note 16)	757,837	-	-	757,837
Amounts due to other funds (Note 18)	33,065	944,037	101,230	1,078,332
Amounts due to component units	41,042	-	30,604	71,645
Bonds and notes payable	-	-	131,180	131,180
Interest payable	-	-	2	2
Deferred revenue	884,711	414,391	184,537	1,483,639
Total Current Liabilities	<u>4,174,702</u>	<u>1,561,016</u>	<u>1,185,885</u>	<u>6,921,602</u>
Long-Term Liabilities:				
Advances from component units	869,424	-	-	869,424
Deferred revenue	489,278	60,618	8,077	557,972
Total Long-Term Liabilities	<u>1,358,702</u>	<u>60,618</u>	<u>8,077</u>	<u>1,427,396</u>
Total Liabilities	<u>5,533,404</u>	<u>1,621,633</u>	<u>1,193,961</u>	<u>8,348,998</u>
Fund Balances:				
Nonspendable	237,955	-	951,453	1,189,408
Restricted	364,497	440,114	1,646,813	2,451,425
Committed	805,402	-	196,931	1,002,333
Assigned	68,583	-	-	68,583
Unassigned (Note 21)	979,205	-	(144,804)	834,402
Total Fund Balances (Note 22)	<u>2,455,642</u>	<u>440,114</u>	<u>2,650,394</u>	<u>5,546,150</u>
Total Liabilities and Fund Balances	<u>\$ 7,989,046</u>	<u>\$ 2,061,747</u>	<u>\$ 3,844,355</u>	<u>\$ 13,895,149</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, 2012

(In Thousands)

Total fund balances for governmental funds		\$ 5,546,150
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	3,502,092	
Buildings, equipment, and other depreciable assets	4,986,811	
Infrastructure	13,305,025	
Construction in progress	2,097,443	
Interest in joint ventures	33,473	
Accumulated depreciation	<u>(2,372,565)</u>	21,552,279
Certain tax revenues are earned but not available and therefore are not reported in the funds.		1,429,809
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		476,550
Amounts due to component units for long-term loans.		(156,411)
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.		221,657
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.		38,735
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 15)		
Capital lease obligations	(394,804)	
Compensated absences	(389,021)	
Workers' compensation	(100,803)	
Litigation	(596,971)	
Net pension obligations	(806,627)	
Net other postemployment benefits	(2,743,999)	
Pollution remediation	(161,510)	
Pension supplement	(50,529)	
Other long-term liabilities	<u>(12)</u>	(5,244,276)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement. (Note 13)		
Bonds and notes payable	(7,357,657)	
Unamortized premiums	(203,359)	
Less unamortized discounts	4,466	
Less deferred loss amount on refundings	68,924	
Accrued interest payable	<u>(133,978)</u>	<u>(7,621,604)</u>
Net assets of governmental activities		<u>\$ 16,242,889</u>

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

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES				
Taxes	\$ 12,680,308	\$ 10,164,293	\$ 1,925,342	\$ 24,769,943
From federal agencies	14,575,232	1,818,997	1,435,937	17,830,166
From local agencies	85,394	-	17,382	102,776
From services	306,695	-	7,364	314,059
From licenses and permits	302,020	-	179,974	481,994
Special Medicaid reimbursements	186,194	-	-	186,194
Miscellaneous	845,650	26,501	1,024,513	1,896,663
Total Revenues	<u>28,981,493</u>	<u>12,009,791</u>	<u>4,590,511</u>	<u>45,581,795</u>
EXPENDITURES				
Current:				
General government	1,589,614	15,213	333,049	1,937,876
Education	1,468,611	13,071,526	96,303	14,636,439
Human services	5,853,843	-	32,721	5,886,563
Public safety and corrections	2,564,142	-	3,362	2,567,504
Conservation, environment, recreation, and agriculture	353,136	-	229,820	582,955
Labor, commerce, and regulatory	413,289	-	509,771	923,059
Health services	13,612,002	-	86,745	13,698,746
Transportation	500	-	2,149,128	2,149,628
Tax credits (Note 16)	1,226,300	-	-	1,226,300
Capital outlay	19,584	-	1,025,476	1,045,060
Intergovernmental-revenue sharing	1,032,243	-	-	1,032,243
Debt service:				
Bond principal retirement	-	-	342,241	342,241
Bond interest and fiscal charges	-	-	346,861	346,861
Capital lease payments	55,291	-	1,035	56,327
Total Expenditures	<u>28,188,553</u>	<u>13,086,739</u>	<u>5,156,511</u>	<u>46,431,804</u>
Excess of Revenues over (under) Expenditures	<u>792,940</u>	<u>(1,076,948)</u>	<u>(566,000)</u>	<u>(850,008)</u>
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	269,280	-	90,980	360,260
Refunding bonds issued	498	-	162,537	163,035
Premium on bond issuance	223	-	21,848	22,071
Discount on bond issuance	(950)	-	(389)	(1,339)
Payment to refunded bond escrow agent	-	-	(172,223)	(172,223)
Capital lease acquisitions	34,567	-	-	34,567
Proceeds from sale of capital assets	2,848	-	312	3,160
Transfers from other funds (Note 20)	234,108	857,074	1,865,453	2,956,635
Transfers to other funds (Note 20)	(565,563)	(93,575)	(1,293,508)	(1,952,646)
Total Other Financing Sources (Uses)	<u>(24,988)</u>	<u>763,499</u>	<u>675,009</u>	<u>1,413,520</u>
Net changes in fund balances	767,952	(313,449)	109,009	563,512
Fund Balances - Beginning of fiscal year - restated	<u>1,687,690</u>	<u>753,563</u>	<u>2,541,385</u>	<u>4,982,638</u>
Fund Balances - End of fiscal year	<u>\$ 2,455,642</u>	<u>\$ 440,114</u>	<u>\$ 2,650,394</u>	<u>\$ 5,546,150</u>

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

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

Net change in fund balance - total governmental funds		\$	563,512
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 9)</p>			
Land and other non-depreciable assets	12,163		
Buildings, equipment, and other depreciable assets	166,194		
Infrastructure	259,912		
Construction in progress	(28,981)		
Gain on disposal of capital assets	3,160		
Accumulated depreciation	<u>(170,017)</u>		242,431
<p>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.</p>			
			31,820
<p>Amount due to component units for long-term loans are not reported in the funds as they are not due and payable.</p>			
			(22,330)
<p>Increase in equity interest in joint ventures. (Note 7)</p>			
			1,329
<p>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.</p>			
			8,957
<p>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.</p>			
			16,049
<p>Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 13)</p>			
Bond proceeds and premiums received	(545,366)		
Repayment of bond principal	342,241		
Payment to refunded bond escrow agent	172,223		
Discount on bond issuances	1,339		
Accrued interest and amortization	(7,503)		
Deferred issue costs	<u>3,599</u>		(33,467)
<p>Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities. (Note 15)</p>			
Net pension obligation	(182,736)		
Net other postemployment benefit obligation	(343,018)		
Capital lease payments	18,995		
Compensated absences payments	(28,403)		
Litigation recoveries, settlements and payments	(107,134)		
Pollution remediation obligations	4,235		
Workers' compensation	15,267		
Financed infrastructure projects	36,340		
Pension supplement	15,500		
Other	<u>(1)</u>		(570,957)
Change in net assets of governmental activities			<u>\$ 237,344</u>

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



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Technology, 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 Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

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

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

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

The Michigan Employment Security Act Contingent Fund was created by Michigan Compiled Laws (MCL) Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. MCL Section 421.10 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

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

Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 188.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 192.

Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
 SEPTEMBER 30, 2012
 (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	\$ 18,166	\$ 59	\$ 18,226	\$ 4
Equity in common cash (Note 5)	12,973	10,612	68,459	92,044	283,558
Amounts due from other funds (Note 18)	-	5,023	-	5,023	25,786
Amounts due from component units	-	498	-	498	-
Amounts due from federal agencies	-	290	-	290	-
Amounts due from local units	-	52,732	-	52,732	-
Inventories	6,198	-	5,551	11,748	13,514
Investments (Note 8)	40,702	943,567	5,972	990,241	-
Other current assets	75,771	260,202	7,890	343,863	26,274
Total Current Assets	<u>135,645</u>	<u>1,291,089</u>	<u>87,931</u>	<u>1,514,665</u>	<u>349,135</u>
Noncurrent Assets:					
Investments (Note 8)	224,994	-	-	224,994	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	4,399	-	525	4,923	815,004
Allowance for depreciation	(4,140)	-	(428)	(4,568)	(547,760)
Total capital assets	<u>258</u>	<u>-</u>	<u>97</u>	<u>355</u>	<u>276,414</u>
Other noncurrent assets	-	43,300	29	43,329	2,750
Total Noncurrent Assets	<u>225,252</u>	<u>43,300</u>	<u>126</u>	<u>268,678</u>	<u>279,164</u>
Total Assets	<u>\$ 360,898</u>	<u>\$ 1,334,389</u>	<u>\$ 88,057</u>	<u>\$ 1,783,343</u>	<u>\$ 628,299</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 163	\$ -	\$ 1,240	\$ 1,404	\$ 440
Accounts payable and other liabilities (Note 23)	111,651	20,454	79,013	211,118	85,494
Amounts due to other funds (Note 18)	232	32,826	192	33,250	27,541
Amounts due to component units	-	2,512	-	2,512	25
Deferred revenue	-	-	476	476	47,521
Current portion of other long-term obligations (Note 15)	827	-	503	1,331	62,790
Total Current Liabilities	<u>112,874</u>	<u>55,792</u>	<u>81,424</u>	<u>250,090</u>	<u>223,812</u>
Long-Term Liabilities:					
Advances from other funds (Note 18)	-	-	-	-	5,616
Amounts due to other funds (Note 18)	232	-	210	442	2,364
Prize awards payable	211,864	-	-	211,864	-
Deferred revenue	-	-	-	-	54,522
Noncurrent portion of other long-term obligations (Note 15)	953	36,859	142	37,953	120,329
Total Long-Term Liabilities	<u>213,049</u>	<u>36,859</u>	<u>352</u>	<u>250,259</u>	<u>182,830</u>
Total Liabilities	<u>325,923</u>	<u>92,650</u>	<u>81,776</u>	<u>500,349</u>	<u>406,642</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 258	\$ -	\$ 97	\$ 355	\$ 255,053
Restricted For:					
Unemployment compensation	-	1,241,738	-	1,241,738	-
Other purposes	34,975	-	-	34,975	7,917
Unrestricted	(258)	-	6,184	5,926	(41,313)
Total Net Assets	<u>\$ 34,975</u>	<u>\$ 1,241,738</u>	<u>\$ 6,281</u>	<u>\$ 1,282,994</u>	<u>\$ 221,657</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, 2012

(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	\$ 2,430,281	\$ 3,529,515	\$ 861,883	\$ 6,821,680	\$ 1,445,409
Total Operating Revenues	<u>2,430,281</u>	<u>3,529,515</u>	<u>861,883</u>	<u>6,821,680</u>	<u>1,445,409</u>
OPERATING EXPENSES					
Salaries, wages, and other administrative	270,966	4,518	75,213	350,697	542,929
Interest expense	1	-	-	1	-
Depreciation	189	-	48	236	57,132
Purchases for resale	-	-	625,322	625,322	65,726
Purchases for prison industries	-	-	-	-	17,017
Lottery prize awards	1,369,752	-	-	1,369,752	-
Premiums and claims	-	-	13	13	688,870
Unemployment benefits	-	1,440,518	-	1,440,518	-
Other operating expenses	-	1,514,836	945	1,515,782	54,309
Total Operating Expenses	<u>1,640,908</u>	<u>2,959,873</u>	<u>701,541</u>	<u>5,302,322</u>	<u>1,425,982</u>
Operating Income (Loss)	<u>789,373</u>	<u>569,643</u>	<u>160,342</u>	<u>1,519,358</u>	<u>19,427</u>
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	-	-	15,737	15,737	-
Interest revenue	125	-	139	263	271
Investment revenue (expense) - net	15,449	9,637	-	25,086	-
Revenue from component units	-	3,320,914	-	3,320,914	-
Other nonoperating revenues	-	226,576	1	226,576	492
Amortization of prize award obligation discount	(13,321)	-	-	(13,321)	-
Interest expense	(5)	(31,627)	-	(31,632)	(786)
Other nonoperating expense	-	-	-	-	(375)
Total Nonoperating Revenues (Expenses)	<u>2,247</u>	<u>3,525,499</u>	<u>15,876</u>	<u>3,543,623</u>	<u>(397)</u>
Income (Loss) Before Transfers	<u>791,621</u>	<u>4,095,142</u>	<u>176,218</u>	<u>5,062,980</u>	<u>19,030</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Transfers To:					
School Aid Fund	(778,432)	-	-	(778,432)	-
Other funds	(8,677)	(37,911)	(175,821)	(222,409)	(2,981)
Total transfers to other funds	<u>(787,109)</u>	<u>(37,911)</u>	<u>(175,821)</u>	<u>(1,000,841)</u>	<u>(2,981)</u>
Change in net assets	<u>4,512</u>	<u>4,057,231</u>	<u>397</u>	<u>4,062,139</u>	<u>16,049</u>
Total net assets - Beginning of fiscal year - restated	<u>30,463</u>	<u>(2,815,492)</u>	<u>5,884</u>	<u>(2,779,145)</u>	<u>205,608</u>
Total net assets - End of fiscal year	<u><u>\$ 34,975</u></u>	<u><u>\$ 1,241,738</u></u>	<u><u>\$ 6,281</u></u>	<u><u>\$ 1,282,994</u></u>	<u><u>\$ 221,657</u></u>

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

Michigan

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(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	\$ -	\$ 1,516,834	\$ -	\$ 1,516,834	\$ -
Receipts from customers	2,420,761	1,925,607	856,717	5,203,085	1,478,495
Membership dues	-	-	4,906	4,906	-
Payments to employees	(19,098)	-	(23,543)	(42,641)	(545,461)
Payments to suppliers	(50,248)	-	(673,478)	(723,726)	(798,705)
Payments to prize winners	(1,409,921)	-	-	(1,409,921)	-
Payments for commissions to retailers	(205,987)	-	-	(205,987)	-
Claims paid	-	(2,962,802)	-	(2,962,802)	(1,708)
Other receipts	-	60,128	137	60,266	240
Other payments	-	(2,006)	(1,244)	(3,250)	(6,031)
Net cash provided (used) by operating activities	<u>\$ 735,508</u>	<u>\$ 537,761</u>	<u>\$ 163,495</u>	<u>\$ 1,436,763</u>	<u>\$ 126,829</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Revenue from component units	\$ -	\$ 3,289,287	\$ -	\$ 3,289,287	\$ -
Repayment of federal advances	-	(2,955,184)	-	(2,955,184)	-
Loans or loan repayments from other funds	-	-	-	-	41,150
Loans or loan repayments to other funds	-	-	-	-	(43,197)
Specific tax on spirits	-	-	15,737	15,737	-
Transfers from other funds	-	-	-	-	-
Transfers to other funds	(787,109)	(55,888)	(175,821)	(1,018,818)	(2,981)
Net cash provided (used) by noncapital financing activities	<u>\$ (787,109)</u>	<u>\$ 278,214</u>	<u>\$ (160,084)</u>	<u>\$ (668,979)</u>	<u>\$ (5,028)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ -	\$ -	\$ (13)	\$ (13)	\$ (75,044)
Interest paid	-	-	-	-	(7)
Capital lease payments (including imputed interest expense)	-	-	-	-	(9,432)
Proceeds from sale of capital assets	-	-	-	-	32
Net cash provided (used) by capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (13)</u>	<u>\$ (13)</u>	<u>\$ (84,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investment securities	\$ 49,279	\$ (820,952)	\$ -	\$ (771,673)	\$ -
Purchases of investment securities	-	-	(26)	(26)	-
Interest and dividends on investments	125	9,637	139	9,900	271
Expenses from securities lending activities	(5)	-	-	(5)	-
Net cash provided (used) by investing activities	<u>\$ 49,399</u>	<u>\$ (811,315)</u>	<u>\$ 112</u>	<u>\$ (761,803)</u>	<u>\$ 271</u>
Net cash provided (used) - all activities	\$ (2,203)	\$ 4,660	\$ 3,510	\$ 5,968	\$ 37,622
Cash and cash equivalents at beginning of year	<u>15,014</u>	<u>24,118</u>	<u>63,768</u>	<u>102,899</u>	<u>245,500</u>
Cash and cash equivalents at end of year	<u><u>\$ 12,811</u></u>	<u><u>\$ 28,778</u></u>	<u><u>\$ 67,278</u></u>	<u><u>\$ 108,867</u></u>	<u><u>\$ 283,122</u></u>

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

Michigan

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS

	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 18,166	\$ 59	\$ 18,226	\$ 4
Equity in common cash	12,973	10,612	68,459	92,044	283,558
Warrants outstanding	(163)	-	(1,240)	(1,404)	(440)
Cash and cash equivalents at end of year	\$ 12,811	\$ 28,778	\$ 67,278	\$ 108,867	\$ 283,122
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 789,373	\$ 569,643	\$ 160,342	\$ 1,519,358	\$ 19,427
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	189	-	48	236	57,132
Amortization of prize award obligation discount	(13,321)	-	-	(13,321)	-
Other nonoperating revenues	-	-	1	1	-
Other reconciling items	83	-	-	83	-
Net Changes in Assets and Liabilities:					
Inventories	(1,736)	-	353	(1,383)	2,054
Other assets (net)	(9,521)	(3,663)	(225)	(13,409)	(4,846)
Accounts payable and other liabilities	(2,713)	(28,219)	3,121	(27,811)	20,476
Prize awards payable	(26,847)	-	-	(26,847)	-
Deferred revenue	-	-	(144)	(144)	32,586
Net cash provided (used) by operating activities	\$ 735,508	\$ 537,761	\$ 163,495	\$ 1,436,763	\$ 126,829
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 6,572
Capital lease liabilities entered into during the year	-	-	-	-	(6,572)
Increase (decrease) in fair value of investments	4,512	-	-	4,512	-
Transfers from other funds (accrual)	-	-	-	-	-
Transfers to other funds (accrual)	-	(28,583)	-	(28,583)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(375)
Federal credit reduction	-	179,319	-	179,319	-
Payments on federal advances	-	(179,319)	-	(179,319)	-
Total noncash investing, capital, and financing activities	\$ 4,512	\$ (28,583)	\$ -	\$ (24,071)	\$ (375)



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 200.
Private Purpose Trust Funds, page 208.
Agency Funds, page 211.

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2012

(In Thousands)

ASSETS	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Cash	\$ -	\$ 1,954	\$ 39,288
Equity in common cash (Note 5)	270,697	108,694	4,097
Receivables:			
From participants	221,327	-	-
From employers	423,498	-	-
Other	59,454	-	-
Interest and dividends	7,806	1,786	-
Due from other funds (Note 18)	5,329	-	-
Due from component unit	765	-	-
Due from other governmental	7,795	-	-
Sale of investments	281	-	-
Investments at Fair Value (Note 8):			
Short term investments	2,898,169	-	-
Fixed income	6,728,887	21,129	-
Domestic equities	13,836,510	-	-
Real estate	5,291,654	-	-
Alternative investments	10,896,454	-	-
International equities	7,149,415	-	-
Absolute return	4,502,716	-	-
Mutual funds	1,515,451	2,917,765	-
Pooled investment funds	2,109,067	-	-
Separate accounts	1,484,246	-	-
Guaranteed funding agreements	-	270,555	-
Securities lending collateral (Note 8)	3,875,875	-	-
Other current assets	-	6,592	-
Other noncurrent assets	-	600	366,411
Total assets	<u>\$ 61,285,395</u>	<u>\$ 3,329,076</u>	<u>\$ 409,796</u>
LIABILITIES			
Warrants outstanding	\$ 4,582	\$ 3,729	\$ -
Accounts payable and other liabilities	333,737	7,877	42,640
Amounts due to other funds (Note 18)	2,067	-	745
Obligations under security lending	4,993,377	-	-
Deferred revenue	2,498	-	-
Other long-term liabilities	-	-	366,411
Total liabilities	<u>\$ 5,336,263</u>	<u>\$ 11,605</u>	<u>\$ 409,796</u>
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, deferred compensation participants, and other purposes	<u>\$ 55,949,133</u>	<u>\$ 3,317,471</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 50,337,707	\$ -	
Postemployment health-care benefits (Note 11)	2,295,566	-	
Deferred compensation participants (Note 17)	3,315,860	-	
Other purposes	-	3,317,471	
Total net assets held in trust for benefits and other purposes	<u>\$ 55,949,133</u>	<u>\$ 3,317,471</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, 2012

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
From participants	\$ 981,595	\$ 1,069,654
From employers	3,529,137	-
From clients	-	64,295
From gifts, bequests, and endowments	-	38,739
From other plans	2,568	-
From other governmental	42,497	-
From other systems	6,902	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	6,903,815	346,496
Interest, dividends, and other	1,035,387	56,400
Securities lending income	109,081	-
Less Investment Expense:		
Investment activity expense	177,025	-
Securities lending expense	14,124	-
Net investment income (loss)	<u>7,857,134</u>	<u>402,896</u>
Escheated property	-	30,653
Miscellaneous income	<u>5,902</u>	<u>107</u>
 Total Additions	 <u>12,425,734</u>	 <u>1,606,344</u>
DEDUCTIONS		
Benefits paid to participants or beneficiaries	5,540,094	878,078
Medical, dental, and life insurance for retirees	1,296,891	-
Refunds and transfers to other systems	215,629	-
Amounts distributed to clients, claimants, or third parties	-	195,506
Administrative and other expenses	258,306	10,000
Transfers to other funds	<u>167</u>	<u>-</u>
 Total Deductions	 <u>7,311,086</u>	 <u>1,083,585</u>
 Net increase (decrease)	 5,114,647	 522,760
 Net assets - Beginning of fiscal year - restated	 <u>50,834,485</u>	 <u>2,794,711</u>
 Net assets - End of fiscal year	 <u>\$ 55,949,133</u>	 <u>\$ 3,317,471</u>
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 4,144,882	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	694,852	-
Net increase (decrease) in assets held in trust for deferred compensation participants	274,913	-
Net increase (decrease) in assets held in trust for other purposes	<u>-</u>	<u>522,760</u>
 Total net increase (decrease)	 <u>\$ 5,114,647</u>	 <u>\$ 522,760</u>

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

COMPONENT UNIT FINANCIAL STATEMENTS



Major Funds

MICHIGAN EDUCATION TRUST

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

Michigan Compiled Laws Section 390.1425, the Michigan Education Trust Act, created MET. MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the law provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the law. The law and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

MICHIGAN FINANCE AUTHORITY

Executive Order 2010-2 created the Michigan Finance Authority (MFA) to consolidate certain Michigan public finance authorities. Functions related to borrowing money or the issuance of bonds or notes of the Michigan Strategic Fund, Michigan Forest Finance Authority, and Land Bank Fast Track Authority were also consolidated into MFA. A seven-member Board of Trustees consisting of the State Treasurer and six appointees of the Governor with advice and consent of the State Senate governs the Authority.

The following entities, reported prior to fiscal year 2010 as discretely presented component units of the State, were transferred to MFA by Executive Order 2010-2: Michigan Municipal Bond Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Public Educational Facilities Authority, and Michigan State Hospital Finance Authority. The Michigan Tobacco Settlement Finance Authority, reported prior to fiscal year 2010 as a blended component unit, was also transferred to MFA. The governing bodies of each of these authorities were abolished.

MFA provides sources of funding for loans to governmental units, school districts, and nonpublic nonprofit institutions of higher education, healthcare corporations and facilities. Additionally, MFA assists governmental units in financing and marketing municipal debt and tax-exempt bonds. The Authority also enhances the student loan efforts of Michigan private lenders by making loans to students and their parents, and acquiring loans previously made. MFA may not create debt or liabilities on behalf of the State or pledge the full faith and credit of the State.



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 STRATEGIC FUND

The Michigan Strategic Fund (MSF) is a public body corporation and politic created by Michigan Compiled Laws (MCL) Section 125.2005 to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. MCL Section 408.40 transferred all of the economic development functions of the former Department of Commerce and the Michigan Jobs Commission to MSF and placed MSF as an autonomous entity in the Department of Technology, Management and Budget (DTMB). In 2003, MCL Section 445.2011 transferred MSF from DTMB to the Department of Energy, 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. Executive Order 2011-4 transferred a number of programs from the Department of Licensing and Regulatory Affairs (LARA) to MSF and created the Workforce Development Agency within MSF effective October 1, 2011.

MSF is governed by a board of eleven members, which includes the directors (or their designees) of LARA 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.

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 216.

The non-major component unit - State universities are presented beginning on page 222.

STATEMENT OF NET ASSETS
COMPONENT UNITS
 SEPTEMBER 30, 2012
 (In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN FINANCE AUTHORITY	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN STRATEGIC FUND
ASSETS				
Current Assets:				
Cash	\$ 114,164	\$ 513,041	\$ 272,970	\$ 33,208
Equity in common cash (Note 5)	-	217,232	-	115,703
Amounts due from component units	-	-	-	-
Amounts due from primary government	9,645	38,843	-	-
Amounts due from federal government	-	2,266	-	53,007
Amounts due from local units	-	1,017,181	-	4,736
Inventories	-	-	-	-
Investments (Note 8)	-	1,305,324	188,524	-
Other current assets	19,425	277,931	63,275	53,696
Total Current Assets	<u>143,234</u>	<u>3,371,819</u>	<u>524,769</u>	<u>260,350</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	38,108
Investments	-	-	-	-
Mortgages and loans receivable	-	-	-	-
Advances to primary government	-	1,026,515	-	-
Amounts due from local units	-	3,294,835	-	-
Mortgages and loans receivable	-	1,160,261	2,267,131	46,573
Investments (Note 8)	753,573	945,443	840,646	92,472
Land and property held for resale	-	-	-	-
Capital Assets (Note 9):				
Land and other non-depreciable assets	-	-	-	-
Buildings, equipment, and other depreciable assets	-	-	-	-
Less accumulated depreciation	-	-	-	-
Infrastructure	-	-	-	-
Construction in progress	-	-	-	-
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other noncurrent assets	53,910	86,767	320,096	214,035
Total Assets	<u>\$ 950,717</u>	<u>\$ 9,885,640</u>	<u>\$ 3,952,642</u>	<u>\$ 651,538</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 17
Accounts payable and other liabilities	-	9,731	46,327	78,339
Amounts due to component units	-	-	-	19,258
Amounts due to primary government	-	-	-	145
Bonds and notes payable (Note 14)	-	1,316,201	89,337	2,780
Interest payable	-	124,885	13,593	4,652
Deferred revenue	-	-	-	1,179
Current portion of other long-term obligations	150,007	4,859	-	2,056
Total Current Liabilities	<u>150,007</u>	<u>1,455,676</u>	<u>149,257</u>	<u>108,426</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 14)	-	9,394,255	2,458,349	199,825
Noncurrent portion of other long-term obligations	903,177	28,273	602,955	6,418
Total Liabilities	<u>\$ 1,053,184</u>	<u>\$ 10,878,204</u>	<u>\$ 3,210,562</u>	<u>\$ 314,669</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	2,889,999	448,789	1,411
Other purposes	-	-	17,731	335,397
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	(102,467)	(3,882,563)	275,559	61
Total Net Assets	<u>\$ (102,467)</u>	<u>\$ (992,564)</u>	<u>\$ 742,080</u>	<u>\$ 336,869</u>

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

Michigan

AUTHORITIES	STATE UNIVERSITIES				
NON-MAJOR	CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS	
\$ 33,475	\$ 73,533	\$ 44,773	\$ 212,208	\$	1,297,372
28,681	-	-	-		361,617
19,294	-	-	-		19,294
4,993	48,227	25,335	131,404		258,447
6,203	724	2,656	16,892		81,748
-	-	1	7		1,021,925
605	7,104	5,539	12,714		25,962
24,554	-	27,363	122,261		1,668,025
11,612	23,868	45,464	79,473		574,743
<u>129,417</u>	<u>153,456</u>	<u>151,131</u>	<u>574,958</u>		<u>5,309,134</u>
2,109	-	-	8,608		48,825
2,276	50,922	199,460	171,353		424,011
-	6,692	-	30,035		36,728
1,500	-	-	-		1,028,015
-	-	-	-		3,294,835
20,034	-	9,164	29,590		3,532,755
105,366	235,667	111,991	634,490		3,719,648
20,879	-	-	-		20,879
943	13,574	22,292	97,597		134,406
49,351	725,559	1,063,811	3,621,269		5,459,990
(29,198)	(327,264)	(443,734)	(1,438,185)		(2,238,382)
102,758	-	-	-		102,758
707	21,683	71,037	171,122		264,550
<u>124,560</u>	<u>433,552</u>	<u>713,406</u>	<u>2,451,803</u>		<u>3,723,321</u>
217	11,579	65,803	87,360		839,767
<u>\$ 406,358</u>	<u>\$ 891,868</u>	<u>\$ 1,250,955</u>	<u>\$ 3,988,199</u>	<u>\$</u>	<u>21,977,917</u>
\$ 58	\$ -	\$ -	\$ -	\$	75
16,458	62,433	55,568	199,398		468,254
66	-	-	-		19,323
2,373	488	58	1,646		4,710
50	7,374	12,015	33,150		1,460,908
17	1,175	1,853	7,010		153,186
5,035	12,192	8,984	53,223		80,613
1,754	231	5,486	14,671		179,065
<u>25,811</u>	<u>83,892</u>	<u>83,965</u>	<u>309,099</u>		<u>2,366,134</u>
1,572	-	-	4,175		5,747
1,715	142,534	289,860	1,027,843		13,514,381
1,420	24,309	170,473	170,147		1,907,173
<u>\$ 30,518</u>	<u>\$ 250,735</u>	<u>\$ 544,298</u>	<u>\$ 1,511,264</u>	<u>\$</u>	<u>17,793,435</u>
\$ 122,795	\$ 285,158	\$ 406,267	\$ 1,341,652	\$	2,155,871
-	30,889	10,914	122,034		163,837
3,065	8,152	-	66,327		3,417,744
13,453	-	158,899	26,989		552,469
-	-	-	67,518		67,518
-	37,269	64,394	235,323		336,985
236,527	279,664	66,184	617,092		(2,509,942)
<u>\$ 375,840</u>	<u>\$ 641,133</u>	<u>\$ 706,657</u>	<u>\$ 2,476,935</u>	<u>\$</u>	<u>4,184,483</u>

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Authorities:					
Michigan Education Trust	\$ 12,842	\$ 135	\$ 114,834	\$ -	\$ 102,127
Michigan Finance Authority	3,674,048	565,795	372,298	-	(2,735,955)
Michigan State Housing Development Authority	983,822	201,681	768,802	-	(13,338)
Michigan Strategic Fund	572,924	4,212	414,799	-	(153,913)
Non-Major	139,141	36,867	132,072	7,142	36,940
State Universities:					
Central Michigan University	427,721	308,772	21,518	2,828	(94,603)
Western Michigan University	541,595	344,743	30,025	22,380	(144,448)
Non-Major	1,783,359	1,150,142	153,307	37,590	(442,321)
Total	<u>\$ 8,135,453</u>	<u>\$ 2,612,346</u>	<u>\$ 2,007,656</u>	<u>\$ 69,941</u>	<u>\$ (3,445,511)</u>

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

GENERAL REVENUES

<u>INTEREST AND INVESTMENT EARNINGS (LOSS)</u>	<u>PAYMENTS FROM STATE OF MICHIGAN</u>	<u>OTHER</u>	<u>CHANGE IN NET ASSETS</u>	<u>NET ASSETS BEGINNING OF YEAR RESTATED</u>	<u>NET ASSETS END OF YEAR</u>
\$ -	\$ -	\$ -	\$ 102,127	\$ (204,594)	\$ (102,467)
-	1,000	-	(2,734,955)	1,742,392	(992,564)
31,083	-	-	17,745	724,335	742,080
9,158	154,908	71,810	81,963	254,906	336,869
7,932	-	4,622	49,494	326,345	375,840
1,623	68,155	30,938	6,113	635,020	641,133
1,838	110,011	89,770	57,172	649,485	706,657
(13,559)	350,855	148,491	43,467	2,433,468	2,476,935
<u>\$ 38,076</u>	<u>\$ 684,929</u>	<u>\$ 345,631</u>	<u>\$ (2,376,875)</u>	<u>\$ 6,561,357</u>	<u>\$ 4,184,483</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. 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 (SBA) is a legally separate organization that has a board appointed by the primary government and provides services primarily to benefit the State. Therefore, SBA is reported as though it was part of the primary government, using the blending method.

Discretely Presented Component Units

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

The State has the ability to appoint a voting majority of each governing board and is able to impose its will upon these discretely presented component units:

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

The Michigan Finance Authority provides sources of funding for loans to governmental units, school districts, and nonpublic nonprofit institutions of higher education, healthcare corporations and facilities. The Authority also makes loans and acquires loans made to students and their parents.

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

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

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

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

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Notes to the Financial Statements

The State has the ability to appoint a voting majority of each governing board and there is a financial burden/benefit relationship between these entities and the State:

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

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

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

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

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

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

Significant Transactions

The State's significant transactions with its major discretely presented component units result primarily from providing appropriations to the public universities, including \$68.2 million to Central Michigan University and \$110.0 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 State Budget Office, Office of Financial Management at (517) 373-1010.

Related Organizations

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

The State's Governor is responsible for appointing the members of the board of the Venture Michigan Fund, a private non-profit corporation. The State's accountability for this organization does not extend beyond the Governor's appointments.

The State's Governor is responsible for appointing a majority of the members of the board of the Education Achievement Authority established through an inter-local agreement between Eastern Michigan University and Detroit Public Schools. 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 2012, the State awarded contracts totaling \$41.3 million to MPHI.

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Notes to the Financial Statements

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 2012, the State awarded contracts totaling \$.5 million to DWCHA.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

Michigan
Notes to the Financial Statements

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 School Aid Fund's purpose is to aid in the support of the public schools and the intermediate school districts. The fund receives State revenues restricted to local school programs, including the state education (property) tax, portions of the sales and personal income taxes, and State Lottery Fund earnings.

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 – account for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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 resources used for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude capital-related outflows financed by proprietary or trust funds.

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.

Proprietary Fund Types:

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

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

Fiduciary Fund Types:

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

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

Michigan
Notes to the Financial Statements

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

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

Michigan
Notes to the Financial Statements

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 9 and 12, respectively.

Warrants Outstanding

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

Income Tax Refunds Payable

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

Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain games, most notable the lotto games. At September 30, 2012, long-term prize awards of \$317.3 million were reported at a present value of \$211.9 million, using discount rates ranging from 3.5% to 8.5%.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling \$101.0 million, are included with "Accounts payable and other liabilities" on the Statement of Net Assets.

Deferred Revenue

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

Long-Term Liabilities

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

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

Long-term liabilities are more fully described in Notes 13, 14, and 15.

Compensated Absences

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

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 GAAP, 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, 2012.

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 utilized in fiscal years 2005, 2006, and 2010. 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, 2012.

Michigan
Notes to the Financial Statements

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

Net Assets/Fund Balance

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

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form, such as inventories, prepaids, and long-term receivables, or legally or contractually required to be maintained intact.

Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.

Assigned fund balance includes amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance also includes negative residual balances in other funds.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the intent is to use committed resources first, then assigned. Unassigned amounts are generally used only after the other resources have been used.

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 2012, interest charges on general long-term liabilities totaling \$72.3 million were reported as functional expenses.

Fund Financial Statements

In the governmental fund financial statements, revenues are reported by sources. 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. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental-revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Tax expenditures, which represent income tax credit programs that are in substance grants, are also reported as current expenditures. These are described in more detail in Note 16.

Michigan
Notes to the Financial Statements

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

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

Interfund Balances

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

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Notes to the Financial Statements

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

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

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

PRIMARY GOVERNMENT:

MAJOR FUNDS

Governmental:

General Fund* (p. 34)
School Aid Fund* (p. 34)

Proprietary:

State Lottery Fund (p. 40)
Michigan Unemployment Compensation Funds (p. 40)

NON-MAJOR FUNDS

Governmental:

Special Revenue Funds:

Transportation Related:

Michigan Transportation Fund* (p. 136)
Comprehensive Transportation Fund* (p. 136)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy
Fund* (p. 142)
Michigan Game and Fish Protection Trust Fund (p. 142)
Michigan Nongame Fish and Wildlife Trust Fund* (p. 143)
Forest Development Fund* (p. 143)
Bottle Deposits Fund (p. 143)

Debt Service Funds:

Combined State Trunkline Bond and Interest
Redemption Fund (p. 168)
Combined Comprehensive Transportation Bond and
Interest Redemption Fund (p. 168)
Recreation and Environmental Protection Bond
Redemption Fund (p. 168)
School Loan Bond Redemption Fund (p. 169)
State Building Authority (p. 169)

Regulatory and Administrative Related:

Homeowner Construction Lien Recovery Fund* (p. 150)
Michigan Employment Security Act – Administration
Fund* (p. 150)
Safety Education and Training Fund* (p. 150)
Second Injury Fund (p. 150)
Self-Insurers’ Security Fund (p. 150)
Silicosis, Dust Disease, and Logging Industry
Compensation Fund (p. 151)
State Construction Code Fund* (p. 151)
Utility Consumer Representation Fund (p. 151)
Unemployment Obligation Trust Fund (p. 151)
State Casino Gaming Fund* (p. 151)

Other State Funds:

21st Century Jobs Trust Fund* (p. 160)
Michigan Merit Award Trust Fund* (p. 160)
Children’s Trust Fund* (p. 160)
Assigned Claims Facility and Plan Fund (p. 161)
Military Family Relief Fund* (p. 161)
Miscellaneous Special Revenue Funds (p. 161)

Capital Project Funds:

State Trunkline Fund* (p. 174)
State Aeronautics Fund* (p. 174)
Combined State Trunkline Bond Proceeds Fund (p. 174)
Combined Comprehensive Transportation Bond Proceeds
Fund (p. 174)
Transportation Related Trust Funds (p. 175)
Combined Recreation Bond Fund (p. 175)
State Building Authority (p. 175)
Advance Financing Funds (p. 175)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 182)
Michigan State Parks Endowment Fund* (p. 182)
Michigan Veterans’ Trust Fund* (p. 182)

Proprietary:

Enterprise Funds:

Attorney Discipline System (p.188)
Liquor Purchase Revolving Fund (p.188)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 192)
State Sponsored Group Insurance Fund (p. 192)
Information Technology Fund (p. 192)
Office Services Revolving Fund (p. 193)
Motor Transport Fund (p. 193)
Risk Management Fund (p. 193)

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Notes to the Financial Statements

Fiduciary:

Pension (and other employee benefit) Trust Funds:

State of Michigan Deferred Compensation Funds (p. 200)
Legislative Pension Benefits Fund (p. 200)
Legislative Other Postemployment Benefits Fund (p. 200)
State Police Pension Benefits Fund (p. 200)
State Police Other Postemployment Benefits Fund (p. 201)
State Employees' Pension Benefits Fund (p. 201)
State Employees' Other Postemployment Benefits Fund (p. 201)
Public School Employees' Pension Benefits Fund (p. 201)
Public School Employees' Other Postemployment Benefits Fund (p. 201)
Judges' Pension Benefits Fund (p. 201)
Judges' Other Postemployment Benefits Fund (p. 202)
State of Michigan Defined Contribution Retirement Fund (p. 202)

Private Purpose Trust Funds:

Michigan Education Savings Program (p. 208)
Escheats Fund (p. 208)
Gifts, Bequests, and Deposits Investment Fund (p. 208)
Hospital Patients' Trust Fund (p. 208)

Agency Funds:

Environmental Quality Deposits Fund (p. 211)
Insurance Carrier Deposits Fund (p. 211)
Child Support Collection Fund (p. 211)

DISCRETELY PRESENTED COMPONENT UNITS:

Authorities:

Major Funds:

Michigan Education Trust (p. 50)
Michigan Finance Authority (p. 50)
Michigan State Housing Development Authority (p. 50)
Michigan Strategic Fund (p. 50)

Non-Major Funds:

Farm Produce Insurance Authority (p. 216)
Land Bank Fast Track Authority (p. 216)
Mackinac Bridge Authority (p. 216)
Mackinac Island State Park Commission (p. 216)
Michigan Early Childhood Investment Corporation (p. 217)
Michigan Economic Development Corporation (p. 217)
State Bar of Michigan (p. 217)

State Universities (1):

Major Funds:

Central Michigan University (p. 51)
Western Michigan University (p. 51)

Non-Major Funds:

Eastern Michigan University (p. 222)
Ferris State University (p. 222)
Grand Valley State University (p. 222)
Lake Superior State University (p. 222)
Michigan Technological University (p. 223)
Northern Michigan University (p. 223)
Oakland University (p. 223)
Saginaw Valley State University (p. 223)

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

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Major Constitutional and Statutory Provisions

Balanced Budget Requirements

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

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

Michigan
Notes to the Financial Statements

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 2012 are not yet complete. For fiscal year 2011, 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 57.00%, reflecting payments that exceeded the minimum required by \$2.1 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2012.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's Michigan Business Tax. If the limit is exceeded by an amount 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 2012 are not final. For fiscal year 2011, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$5.6 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2012.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, as amended. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature. The Counter-Cyclical Budget and Economic Stabilization Fund is accounted for as a subfund of the General Fund where its fund balance is committed.

The following table summarizes the transactions for the fund for fiscal year 2012 (in millions):

Beginning committed fund balance	\$	2.2
Interest income		.2
Deposits		362.7
Withdrawals		-
		-
Ending committed fund balance	\$	365.1

School Aid Fund Budgetary Provisions

The School Aid Stabilization Fund is a separate account within the School Aid Fund. Any unexpended or unencumbered state school aid fund revenue is deposited into this fund at the end of each fiscal year. The amounts accumulated in this fund are carried forward and shall be expended only for purposes for which state school aid money may be expended. The School Aid Stabilization Fund ending restricted fund balance is \$254.1 million for fiscal year 2012.

Budgetary Overexpenditures

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

General Fund		
Community Health	\$.8
		.8
General Fund Total	\$.8

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

Executive Order 2011-4

Executive Order 2011-4 transferred a number of workforce development and energy related programs from the Department of Licensing and Regulatory Affairs to the Michigan Strategic Fund (MSF), a discretely presented component unit. As a result, beginning fund balance/net assets in the General Fund and the government wide statements were decreased and beginning net assets in MSF were increased by \$17.3 million to reflect the transfer of assets related to an energy loan program. In addition, beginning net assets in the government wide statements were increased and beginning net assets in MSF were decreased by \$2.2 million to reflect the transfer of long-term liabilities for compensated absences and pension supplement related to employees that were moved as part of the executive order.

General Fund and Correctional Industries Revolving Fund

Beginning fund balance was increased in the General Fund and beginning net assets were decreased in the Correctional Industries Revolving Fund by \$1.7 million to reflect the transfer of cash related to a prior period adjustment.

Capital Assets

Beginning balances for capital assets were restated to correct prior period errors as follows: construction in progress (infrastructure) was increased by \$1.6 million; depreciable land improvements and other assets, as well as the related accumulated depreciation, were increased by \$3.5 million and \$.6 million, respectively; and computer software, as well as the related accumulated depreciation, were increased by \$6.9 million and \$.7 million, respectively. These restatements resulted in an increase in beginning net assets invested in capital assets, net of related debt of \$10.7 million in the government wide statements.

Information Technology Fund

Beginning net assets were increased by \$2.5 million in the Information Technology Fund, an internal service fund, to capitalize computer software that had been expensed in prior years. This restatement resulted in an increase in beginning capital assets and net assets invested in capital assets, net of related debt in the government wide statements.

Net Pension Obligation

The beginning balance of the net pension obligation, reported on the Statement of Net Assets line titled "Noncurrent portion of other long-term obligations", was increased by \$1.0 million based on revised actuarial reports. This resulted in a decrease in beginning net assets in the government wide statements.

Deferred Compensation Funds and Defined Contribution Retirement Fund

Beginning net assets were increased by \$19.1 million in the State of Michigan Deferred Compensation Funds and decreased by \$19.1 million in the State of Michigan Defined Contribution Retirement Fund to reflect a prior period adjustment related to the reporting of certain participants. In addition, beginning net assets were decreased by \$2.0 million in the State of Michigan Deferred Compensation Funds to reflect the recognition of a payable for returned checks.

Land Bank Fast Track Authority

The Land Bank Fast Track Authority, a discretely presented component unit, decreased its beginning net assets by \$3.4 million to reflect prior period adjustments.

Component Units – State Universities

Beginning net assets were decreased for Central Michigan University by \$.4 million and increased for Grand Valley State University by \$.7 million to reflect changes to the reporting entity. Beginning net assets were decreased for Western Michigan University by \$24.6 million and decreased for Northern Michigan University by \$.6 million to reflect prior period adjustments.

NOTE 5 – TREASURER’S COMMON CASH

General Accounting Policies

The State Treasurer (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 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 Treasurer. For the remaining “uncapped” funds, earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds’ equity in the pool.

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

Investments and Deposits

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the Michigan Compiled Laws (MCL). The 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 2012.

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, 2012 was \$54.7 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. Effective November 1, 2009, the Wayne County emergency loan was reclassified from an interest-bearing loan to a zero percent loan. The change in interest terms for the loan will be in effect until the debt obligations for the Detroit Regional Convention Facility Authority are retired, or 2039, whichever comes first. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County’s share of a portion of the State taxes collected on cigarette sales. There were no principal repayments made on the loan in fiscal year 2012.

Michigan
Notes to the Financial Statements

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

Assets	
Cash on hand	\$ -
Demand deposits	2,214.4
Time deposits – regular	-
Prime commercial paper – at cost	2,313.6
Interest receivable	.1
Emergency loans to local units – at cost	81.8
Total assets	\$ 4,610.0
Equities	
Fund equities (net) in common cash (1):	
Governmental activities	\$ 3,771.3
Business-type activities	92.0
Fiduciary funds	383.5
Discretely presented component units (2)	363.2
Net fund equities	\$ 4,610.0

- (1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with “Amounts due from other funds” and “Amounts due to other funds” and long-term amounts are classified as interfund advances. Note 18 summarizes interfund receivables and liabilities.
- (2) This balance includes \$1.5 million that is held by the Michigan Guaranty Agency Federal Fund, a fiduciary fund of the Michigan Finance Authority (MFA). While the common cash of this fund is reported in MFA's financial statements, it is not reported in the State's Statement of Net Assets.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements as amended by GASB Statement No. 40, Deposit and Investment Risk Disclosures. Please see Note 8 for information about deposits and investments that are not part of the Common Cash pool.

Common Cash Deposits

Custodial Credit Risk

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

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

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

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

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

At September 30, 2012, the carrying amount of deposits, including time and demand deposits, was \$2.2 billion. The deposits were reflected in the accounts of the banks at \$2.2 billion. Of the bank balance, \$2.2 billion was covered by federal depository insurance; of that balance, \$2.2 billion was also collateralized with securities held by the State's agent in the State's name. There were no demand deposits exposed to custodial credit risk that were uninsured and uncollateralized. Compensating balances kept in demand deposit accounts to avoid service charges totaled \$1.1 billion at September 30, 2012.

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Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates that 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, 2012.

Common Cash Investments

Types of Investments

Common Cash investments include prime commercial paper, certificates of deposit, 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 Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2012, 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 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.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, 2012, 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 that will adversely affect the fair value of an investment.

The 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, 2012, the fair value of cash equivalents was \$2.3 billion; the weighted average maturity was 19 days.

The 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, 2012, for revenues earned during the fiscal year that 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, Michigan business, and income taxes are accrued to the extent that the related sales, wage, or activity being taxed occurred prior to October 1. Property taxes are accrued if the levy date occurred prior to October 1.

Michigan
Notes to the Financial Statements

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

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

Effective January 1, 2008, the State replaced the Single Business Tax (SBT) with the Michigan Business Tax (MBT). Effective January 1, 2012, the MBT was replaced by the Corporate Income Tax (CIT). A small number of taxpayers with certificated credits may continue to file under the MBT provisions until their credits expire. Additionally, the Health Insurance Claims Assessment (HICA) was created effective January 1, 2012, as a replacement of the HMO Use Tax. Because the CIT and the HICA are new and the MBT has drastically changed, historical information is not available to calculate full-accrual receivable amounts. Therefore the accrual and related revenue expected to be collected beyond the 60-day period is not measurable and has not been recorded in this fiscal year for these types of taxes.

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

<u>Tax</u>	General Fund	Other Governmental Funds	Total
Sales & use	\$ 325.2	\$ 666.0	\$ 991.2
Individual income	1,949.2	250.9	2,200.2
SBT/MBT/CIT	696.2	-	696.2
State education (property)	-	1,328.1	1,328.1
Telephone & telegraph	25.8	-	25.8
Motor fuel	-	147.7	147.7
Insurance – retaliatory	68.7	-	68.7
Tobacco products	80.5	43.6	124.1
Quality assurance assessment	97.4	-	97.4
Health insurance claims assessment	65.5	-	65.5
Other	25.5	23.1	48.7
Penalties & interest	994.3	-	994.3
Gross taxes receivable	4,328.3	2,459.5	6,787.8
Less allowance for uncollectibles	2,158.8	404.6	2,563.4
Total taxes receivable (net)	<u>\$ 2,169.4</u>	<u>\$ 2,055.0</u>	<u>\$ 4,224.4</u>
 <u>As reported on the Statement of Net Assets</u>			
Current taxes, interest, and penalties receivable	\$ 2,004.9	\$ 1,991.9	\$ 3,996.9
Noncurrent taxes, interest, and penalties receivable	164.5	63.0	227.5
Total taxes, interest, and penalties receivable	<u>\$ 2,169.4</u>	<u>\$ 2,055.0</u>	<u>\$ 4,224.4</u>

NOTE 7 – JOINT VENTURES

The State participates in two joint ventures as described below. Joint ventures are not reflected as component units within this report because they do not meet the generally accepted accounting principles criteria for inclusion. Their separately issued financial statements may be obtained by directly contacting the applicable organizations. To obtain their phone numbers, you may contact the State Budget Office, Office of Financial Management, Financial Reporting Section at (517) 373-1010.

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.

Michigan
Notes to the Financial Statements

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

Sault Ste. Marie Bridge Authority

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. Effective September 1, 2009, the Sault Ste. Marie Bridge Authority (SSMBA) replaced the Joint International Bridge Authority. SSMBA consists of eight people, four appointed by each government. SSMBA 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. SSMBA reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2011 (SSMBA's most recently audited financial statements), its net assets increased by approximately \$1.0 million. The Bridge and one-half of the ancillary assets on Michigan's side of the Bridge, and in addition one-half of the joint funds not required to pay liabilities, and all funds reserved for capital projects on the Michigan half of the Bridge, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by SSMBA that are not covered by insurance or existing resources. The State's equity interest of \$8.5 million is reflected as an asset in the government-wide financial statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

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

Deposits – Primary Government

Custodial Credit Risk

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At present, only the Michigan Unemployment Compensation Funds (MUCF), the Attorney Discipline System (ADS), and the Michigan Education Savings Plan (MESP) maintain these deposits and are potentially exposed to custodial credit risk.

The Unemployment Insurance Agency administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the Secretary of the Treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, excluding those classified as investments, was \$10.7 million. The bank balance of the deposits was \$19.1 million, all of which was covered by federal depository insurance.

The bank deposits of the ADS were \$6.0 million; these deposits were not covered by Federal Deposit Insurance Corporation (FDIC) insurance, but were collateralized. ADS has no policy to address custodial credit risk. It assesses financial institutions' risk levels; only those with acceptable levels of risk are used as depositories.

The deposits of the MESP were reflected in bank accounts at \$.3 million; these deposits were covered by depository insurance. The level of risk for each financial institution is evaluated and assessed; only those with an acceptable estimated risk level are used as depositories. MESP has no other policy for controlling this risk.

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Notes to the Financial Statements

Investments – Primary Government

The following table shows the carrying amounts and fair values of investments of the primary government by investment type and in total at September 30, 2012:

Primary Government Total Investments (In millions)				
Investment Types	Retirement Systems	Deferred Compensation/ Defined Contribution Funds	Other Funds	Total
Commercial paper	\$ 3,596.0	\$ -	\$ -	\$ 3,596.0
Money market funds	-	-	253.7	253.7
Other short-term	171.6	-	6.0	177.6
Separate accounts	-	1,484.2	-	1,484.2
Absolute return	4,449.0	-	-	4,449.0
Government securities	1,250.0	-	1,274.9	2,524.9
Corporate bonds and notes	5,199.3	-	629.3	5,828.5
Mutual funds	85.9	1,429.6	3,181.3	4,696.7
Pooled investment funds	-	2,109.1	-	2,109.1
Equities	13,580.2	-	-	13,580.2
Funding agreements	-	-	270.6	270.6
International	7,083.0	-	-	7,083.0
Real estate	5,194.4	-	-	5,194.4
Alternative	10,711.1	-	3.9	10,715.0
Accrued income	64.5	-	-	64.5
Unsettled investments	4.7	-	-	4.7
Total	\$ 51,389.7	\$ 5,022.9	\$ 5,619.6	\$ 62,032.2

As reported on the Statement of Net Assets

Current investments	\$ 1,244.0
Noncurrent investments	1,166.2
Total Investments	\$ 2,410.2

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

	Current Investments	Noncurrent Investments	Total
Governmental activities	\$ 253.7	\$ 941.2	\$ 1,194.9
Business-type activities	990.2	225.0	1,215.2
Fiduciary funds	2,898.2	56,723.9	59,622.0
Total Investments	\$ 4,142.2	\$ 57,890.0	\$ 62,032.2

The amounts above include losses, both realized and unrealized, that were largely the result of volatility in the financial markets, both nationally and world-wide. Despite decreases in fair value, very few principal losses have been sustained, and it is expected that many unrealized losses will be reversed.

Authority

Investment authority for the State's pension (and other employee benefit) trust funds is found in Michigan Compiled Laws (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; be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries; and defray 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.

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Notes to the Financial Statements

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 2012, 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. Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total trust funds' portfolio has been invested from time to time in future contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Option and future contracts traded daily on an exchange and settling in cash daily or having a limited and fully defined risk profile at an identified fixed cost are not subject to the derivative exposure limitation.

The State Treasurer has entered into swap agreements with investment grade counterparties with maturity dates ranging from October 2012 to July 2014. Approximately one quarter of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At maturity the trust funds will receive either the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. U.S. Domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in the value of the underlying indices from the inception of the swap agreements. Current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity.

Other derivative investments include structured notes, bond future contracts, forwards, and options. The structured notes are with investment grade counterparties and are fully collateralized and pay cash rates on the underlying collateral, as well as providing enhanced index return. Similar to a swap agreement with the prices changing with the underlying index fluctuations, the notes differ due to their daily put option which allows the structure to end and settle before its final maturity in November 2019. Additional details about derivative investments are included in the table below:

Michigan
Notes to the Financial Statements

Pension (and Other Employee Benefit) Trust Funds Derivative Investments (In millions)

Investment and Investment Type	Objective	Notional Value	Investments At Fair Value*	Net Appreciation (Depreciation) In Fair Value**	Fair Value Subject to Credit Risk
Structured notes - Absolute return	Enhance passive exposure to the Dow Jones UBS Commodity Total Return Index	\$ 366.0	\$ 373.5	\$ 20.7	\$ 373.5
U.S. Treasury Bond Futures - Fixed income	Enhance management flexibility, manage duration and yield curve exposure	16.4	(.1)	-	-
Options - Absolute return	Use on single securities to provide downside protection and enhance current income	18.1	(.2)	3.3	-
Swap agreements - International equities	Diversify the trust funds' portfolio by entering into swap agreements that are tied to stock market indices in twenty-two foreign countries	1,064.8	932.1	237.2	73.8
Swap agreements - Equity Investments	Diversify the trust funds' portfolio by entering into swap agreements that are tied to stock market indices in the domestic market	1,034.0	108.4	55.8	34.4
Swap agreements - International currency forward opportunistic investments	Diversify the trust funds' portfolio by entering into international currency swap forward agreement	5.2	(.2)	.2	-
Totals		<u>\$ 2,504.6</u>	<u>\$ 1,413.5</u>	<u>\$ 317.1</u>	<u>\$ 481.8</u>

* Located in Statement of Fiduciary Net Assets - Investments at Fair Value

**Located in Net appreciation (depreciation) in fair value of investments - Statement of Changes in Fiduciary Net Assets

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

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures, requires certain disclosures regarding policies and practices with respect to the risks associated with investments. The custodial credit risk, credit risk, interest rate risk, foreign currency risk and concentration of credit risk are discussed in the following paragraphs.

Michigan
Notes to the Financial Statements

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, 2012, there were no securities exposed to custodial credit risk.

Credit Risk

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

All long-term fixed income investments, unless unrated, must be investment-grade at the time of purchase, unless specific requirements are met. Investment grade, as defined in MCL Section 38.1132, includes investments in the top four major grades, as determined by two national rating services. The State Treasurer's policy is to use Standard & Poor's (AAA, AA, A, BBB); and Moody's (Aaa, Aa, A, Baa). The primary government's debt investments as of September 30, 2012, are presented below. Note that securities backed by the full faith and credit of the United States Government are excluded.

Michigan
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	\$ 3,033.8	A-1	\$ 3,033.8	P-1
Government securities				
U.S. agencies - sponsored	-	AAA	675.1	Aaa
	675.1	AA	-	Aa
Corporate bonds & notes	35.1	AAA	64.3	Aaa
	731.6	AA	478.1	Aa
	2,198.1	A	2,284.0	A
	1,398.5	BBB	1,499.0	Baa
	174.1	BB	127.8	Ba
	45.1	B	48.9	B
	11.2	CCC	9.1	Caa
	-	CC	.7	Ca
	445.2	Unrated	527.1	Unrated
International - corporate bonds & notes*	411.0	AA	314.4	Aa
	185.2	A	441.2	A
	-	BBB	40.1	Baa
	199.5	Unrated	-	Unrated
Mutual funds**	16.6	AA	16.6	Aa
	13.2	A	13.2	A
Total	<u>\$ 9,573.3</u>		<u>\$ 9,573.3</u>	
Deferred Compensation/Defined Contribution:				
Common trust funds	\$ 368.2	Unavailable	\$ 368.2	Baa - Aaa
	202.1	Unavailable	202.1	A1/P1 - Aa
Stable Value Funds	1,085.7	BBB-AAA	1,085.7	Unavailable
	107.9	Unavailable	107.9	A1/P1 - Aa
Mutual funds	159.7	Below B- AAA	159.7	Unavailable
Total	<u>\$ 1,923.5</u>		<u>\$ 1,923.5</u>	
Other Primary Government Funds:				
Government securities				
U. S. agencies - sponsored	-	AAA	27.7	Aaa
	27.7	AA	-	Aa
Corporate bonds & notes	-	AAA	1.2	Aaa
	79.2	AA	49.4	Aa
	501.2	A	503.6	A
	43.4	BBB	61.4	Baa
	-	Unrated	8.1	Unrated
Municipal Bonds	96.3	AA	96.3	Aa
Mutual funds	1,110.3	Unrated	1,110.3	Unrated
Treasury trust fund pool	943.6	Unrated	943.6	Unrated
Total	<u>\$ 2,801.7</u>		<u>\$ 2,801.7</u>	
Total Primary Government	<u>\$ 14,298.4</u>		<u>\$ 14,298.4</u>	

*International and Equity investment types consist of domestic floating rate notes used as part of a swap strategy.

**Average rating.

Michigan
Notes to the Financial Statements

Interest Rate Risk

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2012, the fair value of prime commercial paper was \$3.0 billion; the weighted average maturity was 14 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, 2012, 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:		
Government securities		
U.S. Treasury bonds	\$ 362.9	3.9
U.S. agencies - backed	847.8	3.2
U.S. agencies - sponsored	675.1	3.9
Total Governmental	1,885.8	
Corporate bonds & notes	5,039.0	3.9
International - corporate bonds & notes*	795.7	.3
Mutual fund - fixed income	29.8	3.0
Total	\$ 7,750.2	
Deferred Compensation/Defined Contribution:		
Common trust funds		
SSgA bond market index fund	\$ 368.2	6.6
SSgA yield enhanced STIF	202.1	-
Total Common Trust Funds	570.2	
Stable Value Funds		
Synthetic Contracts	1,085.7	3.8
SSgA STIF	107.9	.1
Total Stable Value Funds	1,193.6	
Mutual funds		
PIMCO total return fund	159.7	5.9
Total Mutual Funds	159.7	
Total	\$ 1,923.5	
Total Pension (and Other Employee Benefit) Trust Funds	\$ 9,673.7	

*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.

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Notes to the Financial Statements

As of September 30, 2012, 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 bonds	\$ 170.5	\$ 13.2	\$ 55.1	\$ 35.9	\$ 66.3
Municipal bonds	96.3	27.5	47.6	13.5	7.6
U.S. bonds – backed	34.8	-	.1	.3	34.4
U.S. agency bonds - sponsored	29.7	2.0	16.1	11.7	-
Corporate bonds	629.3	28.4	244.0	351.9	5.0
Mutual funds	1,110.3	17.4	18.6	1,066.2	8.1
Total	\$ 2,070.9	\$ 88.5	\$ 381.5	\$ 1,479.5	\$ 121.4

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. The pension trust funds invest in various foreign securities. These investments are limited to 20% of the total assets of the system, and are additionally limited to 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in MCL Sections 38.1133 and 38.1140. The types of foreign securities include equities, mutual funds, real estate, and limited partnerships. At September 30, 2012, foreign investments were approximately 16.5% of total assets of the systems; total foreign investments were \$8.5 billion. As of September 30, 2012, the pension (and other employee benefits) trust funds held the following investments subject to foreign currency risk:

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

Currency	Country	Market Value (In U.S. Dollars)			
		Real Estate and Alternative Investments	Equity and Mutual Funds	Equities - International	
				Equities	Derivatives*
Retirement Systems:					
Americas					
Dollar	Canada	\$ -	\$ -	\$ -	\$.5
Peso	Mexico	-	3.2	-	-
Real	Brazil	-	2.3	-	-
Europe					
Euro	European Union	1,150.5	12.8	34.7	17.1
Franc	Switzerland	-	74.3	9.1	3.9
Krona	Sweden	-	-	10.2	.4
Krone	Denmark	-	3.0	2.4	-
Sterling	United Kingdom	13.4	27.9	56.9	16.7
Asia/Pacific					
Dollar	Australia	-	-	-	10.1
Renminbi	China	-	1.2	-	-
Dollar	Hong Kong	-	-	4.3	4.2
Yen	Japan	-	-	.3	.8
Dollar	New Zealand	-	-	-	.2
Dollar	Singapore	-	-	10.2	4.3
Won	South Korea	-	-	8.9	7.3
Middle East					
Shekel	Israel	-	57.2	-	-
Africa					
Rand	South Africa	-	.2	-	-
World-wide					
Various	Various	1,059.3	48.9	5,886.0	-
Total		\$ 2,223.2	\$ 231.0	\$ 6,023.1	\$ 65.4
Deferred Compensation/Defined Contribution:					
Various	Various	\$ -	\$ 848.7	\$ -	\$ -
Total		\$ 2,223.2	\$ 1,079.8	\$ 6,023.1	\$ 65.4

*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 2012, through July 2013, with an average maturity of .4 years.

Michigan
Notes to the Financial Statements

Concentration of Credit Risk

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

Other than obligations issued that are assumed or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the pension systems are prohibited by MCL 38.1137 from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2012, 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 90.9% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund (SLF), MESP, and the Michigan Natural Resources Trust Fund.

SLF investments, \$265.7 million, are all in the form of zero coupon U.S. Treasury bonds and State of Michigan Municipal bonds. These investments are held to provide funding for deferred prize awards.

Securities Lending Transactions

Under the authority of MCL Section 38.1133, the State lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. State statutes allow the State to participate in securities lending transactions and the State has, by way of an Agreement, authorized Credit Suisse, the agent bank, to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the State's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issues by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. The agent bank indemnified the State by agreeing to purchase replacement securities, or return cash collateral in the event the borrower failed to return the loaned securities or pay distributions thereon, due to the borrower's insolvency.

Under Master Securities Lending Agreements between the State and each borrower, the State Treasurer and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2012, the investments had an average weighted maturity to next reset of 3.8 years and an average weighted maturity of 13.1 years. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At September 30, 2012, the retirement systems had no credit risk exposure to borrowers. The cash received for securities on loan for the State as of September 30, 2012, was \$5.0 billion. The fair market value of assets held in the dedicated collateral account managed by Credit Suisse and held by the custodian for the State as of September 30, 2012, was \$3.9 billion. The carrying amount, which is the fair market value, of securities on loan for the State as of September 30, 2012, was \$4.9 billion.

Michigan
Notes to the Financial Statements

At September 30, 2012, the pension trust funds had the following debt investments made from cash received as collateral for securities lent:

Debt Investments (In millions)				
Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
Securities Lending Collateral	\$ 650.0	A-1	\$ 650.0	P-1
	13.7	AAA	360.1	Aaa
	746.6	AA	68.2	Aa
	68.2	A	400.2	A
	-	BBB	2.2	Baa
	26.0	BB	2,083.1	Ba
	2.2	B	-	B
	293.3	CCC	223.8	Caa
	-	CC	69.6	Ca
	<u>2,057.1</u>	Unrated	<u>-</u>	Unrated
Total	<u>\$ 3,857.1</u>		<u>\$ 3,857.1</u>	

Deposits and Investments – Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component unit deposits, excluding those classified as investments, was \$897.9 million. The deposits were reflected in the accounts of the banks at \$415.2 million. Of the bank balance, \$307.8 million was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Investments

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

Restricted Assets

Restricted investments on the government-wide Statement of Net Assets, totaling \$424.0 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

Michigan
Notes to the Financial Statements

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

	Investment Maturities (In years)					
	Fair Value	Less Than 1	1 To 5	6 To 10	More Than 10	N/A
Time deposits	\$ 126.9	\$ 116.9	\$ 9.9	\$ -	\$.1	\$ -
Money market accounts	2,219.8	2,219.8	-	-	-	-
Commercial paper	106.6	106.6	-	-	-	-
Repurchase agreements	643.6	-	21.4	81.8	540.4	-
Government securities	623.1	282.8	156.8	129.6	53.9	-
Insured mortgage backed securities	815.6	13.3	52.6	77.1	672.6	-
Government backed securities	124.4	3.0	58.6	51.1	11.8	-
Investment agreements	7.5	.7	-	6.9	-	-
Corporate bonds and notes	352.4	59.9	188.9	103.6	-	-
Equities	132.2	63.0	.2	12.8	1.8	54.5
Real estate	12.4	.7	-	-	11.7	-
Venture capital & leveraged buyouts	84.9	-	-	-	5.9	79.0
Mutual bond/equity funds	1,549.2	84.6	236.9	158.1	281.4	788.2
Pooled investment funds	46.1	46.1	-	-	-	-
Other investments	164.8	6.0	19.2	16.0	110.3	13.2
Total Investments	\$ 7,009.6	\$ 3,003.2	\$ 744.5	\$ 637.0	\$ 1,690.0	\$ 934.9
Less Investments Reported as "Cash" on Statement of Net Assets	1,197.9					
Total Investments	\$ 5,811.7					
<u>As Reported on Statement of Net Assets</u>						
Current investments	\$ 1,668.0					
Noncurrent restricted investments	424.0					
Noncurrent investments	3,719.6					
Total Investments	\$ 5,811.7					

NOTE 9 – CAPITAL ASSETS

Primary Government

Summary of Significant Accounting Policies

Methods used to value capital assets

Capital assets, which include property, plant, equipment, intangible items (mineral rights, land rights, and computer software) 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 exceeds \$5 thousand, computer software is capitalized when the cost exceeds \$5 million, 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	3-40
Land Improvements	5-40
Intangibles	7-10

Modified approach for infrastructure

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

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

Michigan
Notes to the Financial Statements

Capital asset activities for the fiscal year ended September 30, 2012, were as follows (in millions):

Governmental Activities	Beginning Balance Restated*	Additions	Deletions	Adjustments and Reclass- ifications	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 3,418.1	\$ 15.4	\$ (5.6)	\$ 1.8	\$ 3,429.7
Land improvements and other assets	16.2	-	-	-	16.2
Land rights	45.1	.5	-	-	45.6
Mineral rights	19.8	-	-	-	19.8
Construction in progress (buildings)	44.8	19.0	(12.5)	-	51.3
Construction in progress (infrastructure)	2,081.6	396.3	(372.3)	(59.4)	2,046.2
Infrastructure	13,045.1	336.3	(101.5)	25.1	13,305.0
Total capital assets, not being depreciated	<u>18,670.6</u>	<u>767.5</u>	<u>(491.9)</u>	<u>(32.5)</u>	<u>18,913.7</u>
Capital assets, being depreciated:					
Land improvements and other assets	168.1	6.4	(2.0)	(.1)	172.3
Equipment and vehicles	774.9	14.5	(62.3)	(1.1)	726.0
Computer software (includes projects in progress)	327.6	80.4	-	-	408.0
Buildings	3,575.0	89.8	(41.5)	(5.0)	3,618.3
Infrastructure	803.1	51.2	(2.4)	25.4	877.2
Total capital assets, being depreciated	<u>5,648.7</u>	<u>242.2</u>	<u>(108.2)</u>	<u>19.2</u>	<u>5,801.8</u>
Less accumulated depreciation for:					
Land improvements and other assets	(61.3)	(5.5)	1.3	-	(65.4)
Equipment and vehicles	(613.1)	(45.4)	59.8	27.4	(571.3)
Computer software	(123.3)	(35.7)	-	-	(159.0)
Buildings	(1,490.4)	(110.0)	29.6	6.7	(1,564.0)
Infrastructure	(532.2)	(30.7)	2.3	(.1)	(560.7)
Total accumulated depreciation	<u>(2,820.3)</u>	<u>(227.2)</u>	<u>93.1</u>	<u>34.2</u>	<u>(2,920.3)</u>
Total capital assets, being depreciated, net	<u>2,828.3</u>	<u>14.9</u>	<u>(15.2)</u>	<u>53.4</u>	<u>2,881.5</u>
Governmental activity capital assets, net	<u>\$ 21,499.0</u>	<u>\$ 782.4</u>	<u>\$ (507.0)</u>	<u>\$ 20.8</u>	<u>\$21,795.2</u>

*Beginning balances for construction in progress (infrastructure), depreciable land improvements and other assets, and computer software, as well as the related accumulated depreciation, were restated due to prior period errors. See Note 4 for additional information on these restatements.

The Department of Human Services identified asset impairments of a training school during fiscal year 2011. The total permanent impairment loss was \$2.0 million and the impairments pertained to buildings. The Department does not plan to reopen the school. The historical cost of the buildings has been adjusted to the lower of carrying value or fair value in the above table.

The Department of Corrections has permanently closed one camp during fiscal year 2012. The total impairment loss was \$1.6 million. The permanent impairment pertained to buildings. The Department has no plans to reopen the camp. For the permanent impairment, the historical cost of the building has been adjusted to the lower of carrying value or fair value in the above table.

The Department of State Police has permanently closed one police post during fiscal year 2012. The total impairment loss was \$32 thousand. The permanent impairment pertained to buildings. The Department has no plans to reopen the post. For the permanent impairment, the historical cost of the buildings has been adjusted to the lower of carrying value or fair value in the above table.

Both the Department of Natural Resources (DNR) and Environmental Quality (DEQ) identified equipment that was physically damaged in fiscal year 2012. The total equipment impairment loss for DEQ was \$205 thousand. The equipment owned by DNR was fully depreciated and therefore no impairment loss was reported. Both departments do not plan to repair the equipment and have plans to dispose the equipment in the future. The historical cost of the equipment has been adjusted to the lower of carrying value or fair value in the above table.

Michigan
Notes to the Financial Statements

Business - Type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, being depreciated:					
Equipment	\$ 4.9	\$ -	\$ -	\$ -	\$ 4.9
Total capital assets, being depreciated	4.9	-	-	-	4.9
Less accumulated depreciation for:					
Equipment	(4.3)	(.2)	-	-	(4.6)
Total accumulated depreciation	(4.3)	(.2)	-	-	(4.6)
Total capital assets, being depreciated, net	.6	(.2)	-	-	.4
Business-type activity capital assets, net	\$.6	\$ (.2)	\$ -	\$ -	\$.4

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

	Amount
Governmental Activities:	
General government	\$ 31.3
Education	.7
Human services	8.7
Public safety and corrections	50.4
Conservation, environment, recreation, and agriculture	12.4
Labor, commerce, and regulatory	3.1
Health services	21.8
Transportation	41.6
Depreciation on capital assets held by the State's internal service funds charged to the various functions based on their use of the assets	57.1
Total Depreciation Expenses – Governmental Activities	\$ 227.2
Business-type Activities:	
Enterprise	.2
Total Depreciation Expenses – Business-type Activities	\$.2

Discretely Presented Component Units

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

	Amount
State Universities and authorities:	
Land and other non-depreciable assets	\$ 134.4
Buildings, equipment, and other depreciable assets	5,460.0
Infrastructure	102.8
Construction in progress	264.5
Total	5,961.7
Less accumulated depreciation	(2,238.4)
Capital Assets, Net – Discretely Presented Component Units	\$ 3,723.3

Michigan
Notes to the Financial Statements

NOTE 10 – PENSION BENEFITS

Defined Benefit Pension Plans

PLAN DESCRIPTION

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

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System (SERS)	Single employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	711
Judges' Retirement System (JRS)	Cost sharing multi-employer	111
Military Retirement Plan (MRP)	Single employer	1

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

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

Methods Used to Value Investments

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

Description of Benefits

State statutes require that the State plans provide certain retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. LRS life insurance benefits are provided through the defined benefit pension plan and are accounted for as pension benefits. The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan.

Contributions and Reserves

SERS members are allowed to purchase service credits by entering into a contract with duration of up to 20 years. At September 30, 2012, the short-term receivable was \$5.3 million and the discounted long-term receivable was \$23.1 million.

Significant Investments

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

Michigan
Notes to the Financial Statements

Funding Policy

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan.

Plan members for SPRS are required to contribute based on the following: no contribution is required for participants prior to June 10, 2012; participants hired on or after June 10, 2012, are required to contribute 4% of gross wages for the pension component of their plan.

Plan members for LRS are required to contribute based on the following: for participants prior to January 1, 1995, the required contribution rate is 9%; for participants after January 1, 1995, the required contribution rate is 7%.

Plan members for JRS are required to contribute 5.82% (weighted average) of annual covered salary.

Plan members of MRP are not required to contribute to the plans and there is no underlying payroll of participants. Except for five special duty members, retirants receive \$600 in annual pension benefits. Accordingly, the annual required contribution from the State is determined as a dollar amount, not as a percentage of payroll. For fiscal year ending September 30, 2012, this amount was \$5.4 million.

Plan members for SERS are required to contribute based on the changes made to the plan via Public Act 264 of 2011, effective April 1, 2012. Participants who elected to remain in the plan are required to contribute 4% of their compensation.

For LRS, SERS, and SPRS, statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the system's actuary and are based upon level-dollar value funding or a level-percent-of-payroll principles so the contribution rates do not have to increase over time. The following are the required contribution rates for the fiscal year ending September 30, 2012: SPRS, 45.8% of annual active payroll; SERS, \$590.6 million; LRS, \$4.4 million.

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

Year Ended September 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	\$ 1.1	104.0%
2011	-	-
2010	-	-

Termination Benefits

Early termination benefits are defined as benefits received for discontinuing services earlier than planned. A liability and expense for voluntary termination benefits are recognized when the offer is accepted and the amount can be estimated. Public Act 185 of 2010 provided an increased multiplier for SERS members who retired by January 1, 2011. For the Fiscal Year ended September 30, 2012, the change in the Accrued Actuarial Liability due to these termination benefits was \$323.5 million.

Michigan
Notes to the Financial Statements

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

Annual Pension Cost and Net Pension Obligation:	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP*</u>
Annual required contribution	\$ 4.39	\$ 52.28	\$ 590.57	\$ 5.36
Interest on net pension (asset) obligation	.20	4.62	44.14	.46
Adjustment to annual required contribution	<u>(.40)</u>	<u>(3.82)</u>	<u>(49.73)</u>	<u>(.71)</u>
Annual pension cost	4.19	53.08	584.99	5.10
Contributions made	<u>-</u>	<u>40.69</u>	<u>419.93</u>	<u>4.01</u>
Change in net pension asset/obligation	4.19	12.39	165.06	1.09
Net pension (asset) obligation at beginning of fiscal year	<u>2.93**</u>	<u>57.78</u>	<u>551.80</u>	<u>11.39</u>
Net pension (asset) obligation at end of fiscal year	<u>\$ 7.12</u>	<u>\$ 70.17</u>	<u>\$ 716.86</u>	<u>\$ 12.48</u>

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

**Restated due to change in actuarial estimates.

Actuarial Valuations and Assumptions

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

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

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Latest actuarial valuation date	9/30/2011	9/30/2011	9/30/2011	9/30/2011
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar open	Level percent of payroll closed	Level dollar closed	Level dollar closed
Remaining amortization period	10 years	25 years	25 years	25 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%	4%
Projected salary increases	4%	3.5-93.5%	3.5-12.5%	3.5%
Includes inflation at	4%	3.5%	3.5%	3.5%
Cost-of-living adjustments	4% annual compounded (non-compounded for legislators who first became members after 1/1/95)	2% annual non- compounded with maximum annual increase \$500	3% annual non- compounded with maximum annual increase \$300	3.5% for special duty retirants

Michigan
Notes to the Financial Statements

THREE YEAR HISTORICAL TREND INFORMATION

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS**	9/30/11	\$ 149.9	\$ 181.8	\$ 31.9	82.0%	\$.1	31,900.0 %
	9/30/10	159.0	172.7	13.7	92.0	1.2	1,141.7
	9/30/09	165.8	171.4	5.6	96.7	1.2	466.7
SPRS**	9/30/11	1,138.1	1,627.9	489.8	69.9	110.3	444.1
	9/30/10	1,202.0	1,594.3	392.3	75.4	118.6	330.9
	9/30/09	1,238.1	1,534.0	295.9	80.7	123.2	240.1
SERS**	9/30/11	10,212.0	15,597.0	5,384.9	65.5	1,276.1	422.0
	9/30/10	10,782.3	14,860.4	4,078.1	72.6	1,621.7	251.5
	9/30/09	11,107.0	14,233.7	3,126.7	78.0	1,734.3	180.3
MRP*	9/30/11	-	77.3	77.3	-	.1	54,473.0
	9/30/09	-	42.3	42.3	-	.4	9,874.0
	9/30/07	-	41.9	41.9	-	.6	6,473.0

*Actuarial valuation performed biennially.

**The most recent actuarial valuation was performed as of September 30, 2011.

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

	Year Ended September 30	Annual Cost	Percentage Contributed	Net Pension Obligation (Asset)
LRS	2012	\$ 4.2	- %	\$ 7.1
	2011*	2.9	-	2.9
	2010	.8	-	-
SPRS	2012	53.1	76.7	70.2
	2011	48.0	80.4	57.8
	2010	42.3	89.5	48.4
SERS	2012	585.0	71.8	716.9
	2011	443.1	95.8	551.8
	2010	414.5	89.2	533.2
MRP	2012	5.1	78.6	12.5
	2011	3.3	111.7	11.4
	2010	3.8	95.1	11.8

*Restated due to change in actuarial estimates

Defined Contribution Pension Plans

State of Michigan Defined Contribution Retirement Plan

The Plan was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, Public School Reporting Units members hired after July 1, 2010, and to those members of the SERS (defined benefit), eligible members of the Education Achievement Authority (EAA), JRS, and LRS who elected to transfer to this Plan. The Plan is administered by the Department of Technology, Management and Budget. Public Act 264 of 2011 created The State of Michigan Personal Healthcare Fund for State employees hired after January 1, 2012, and those who elected to transfer to this plan.

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. The Plan further provides for eligible public school reporting units and the EAA to make a mandatory contribution of 50% of participants' voluntary contributions up to 1%. The Plan also provides a Personal Healthcare Fund for employees hired on or after January 1, 2012, with an employer match of up to 2% of compensation. Employees hired prior to January 1, 2012, that elected to transfer to this plan received an employer match up to 2% of future compensation plus a monetized amount for existing years of service distributed on termination.

Plan provisions and contribution requirements are established and may be amended by the Legislature. Total employer contributions to the plan were \$116.5 million which consisted of State contributions of \$113.8 million and Public School Reporting Unit and EAA contributions of \$2.8 million. Total Participant contributions to the Plan were \$97.6 million which consisted of State employee contributions of \$91.7 million and Public School Reporting Unit and EAA employee contributions of \$5.9 million. The reports may be obtained by writing to the Department of Technology, 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, 2012: Yield Enhanced STIF, \$138.3 million; GIC – Stable Value, \$145.8 million; Daily Bond, \$143.3 million; S & P 500 Index, \$215.6 million; S & P Midcap, \$147.0 million; Dodge & Cox Stock, \$132.0 million; Europacific Growth, \$151.2 million.

Component Units

In addition to the 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 \$86.3 million for the year ending June 30, 2012.

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 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 \$.3 million for the year ending September 30, 2012.

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefit Plans

PLAN DESCRIPTION

The State of Michigan administers the following Other Postemployment Benefit (OPEB) plans:

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System (SERS)	Single employer	1
Public School Employees' Retirement System (PSERS)	Cost sharing multi-employer	711
Judges' Retirement System (JRS)	Cost sharing multi-employer	111
Life Insurance	Single employer	1

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

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

Methods Used to Value Investments

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

Description of Benefits

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

FUNDING POLICY

The Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for each plan. The State is not required to fund the plans other than the pay-as-you-go amount necessary to provide current benefits to retirees. However, beginning in fiscal year 2012, the State started prefunding the OPEB liability in addition to the pay-as-you-go contributions.

For the fiscal year ended September 30, 2012, the State contributed the following amounts (in millions): \$672.7, SERS; \$47.3, SPRS; \$8.1, LRS; \$25.6, Life Insurance. Included in these amounts were (in millions): prefunding of \$261.8, SERS; \$3.0, SPRS and federal on-behalf payments of \$23.8, SERS; \$1.1, SPRS; \$.3, LRS.

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

Michigan
Notes to the Financial Statements

ANNUAL OPEB COST AND OTHER RELATED INFORMATION

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>Life Insurance</u>
Annual OPEB Cost and Net OPEB Obligation:				
Annual required contribution	\$ 9.67	\$ 68.34	\$ 960.64	\$ 65.68
Interest on net OPEB (asset) obligation	.88	5.14	84.01	6.10
Adjustment to annual required contribution	<u>(1.20)</u>	<u>(5.55)</u>	<u>(90.72)</u>	<u>(6.35)</u>
Annual OPEB cost	9.36	67.93	953.94	65.43
Contributions made	<u>8.10</u>	<u>47.25</u>	<u>672.66</u>	<u>25.63</u>
Change in net OPEB asset/obligation	1.26	20.67	281.28	39.80
Net OPEB (asset) obligation at beginning of fiscal year	<u>19.61</u>	<u>128.42</u>	<u>2,100.37</u>	<u>152.58</u>
Net OPEB (asset) obligation at end of fiscal year	<u>\$ 20.87</u>	<u>\$ 149.10</u>	<u>\$ 2,381.66</u>	<u>\$ 192.38</u>

Actuarial Valuations and Assumptions

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

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

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

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>Life Insurance</u>
Latest actuarial valuation date	9/30/2011	9/30/2011	9/30/2011	9/30/2011
Actuarial cost method	Projected Unit Credit	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar closed	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period	29 years	25 years	25 years	26 years
Asset valuation method	Market Value	Market Value	Market Value	Market Value
Actuarial assumption:				
Investment rate of return	4.5%	4%	4%	4%
Includes inflation at	4%	3.5%	3.5%	3.5%
Healthcare cost trend rate	8.75% in 2012 grading to 4% in 2021	9% Year 1 graded to 3.5% Year 10	9% Year 1 graded to 3.5% Year 10	N/A

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Notes to the Financial Statements

THREE YEAR HISTORICAL TREND INFORMATION

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS	9/30/11	\$ 15.2	\$ 140.7	\$ 125.5	10.8%	\$ 3.7	3,391.9%
	9/30/10	15.9	155.3	139.4	10.2	11.6	1,201.7
	9/30/09	14.6	136.9	122.3	10.7	11.7	1,044.3
SPRS	9/30/11	-	994.7	994.7	-	110.3	902.0
	9/30/10	-	1,055.9	1,055.9	-	118.6	890.5
	9/30/09	-	882.3	882.3	-	123.2	715.9
SERS	9/30/11	-	14,251.1	14,251.1	-	3,039.9	468.8
	9/30/10	-	14,666.4	14,666.4	-	2,938.0	499.2
	9/30/09	-	12,618.4	12,618.4	-	2,972.1	424.6
Life Insurance*	9/30/11	-	1,012.8	1,012.8	-	3,156.2	32.1
	9/30/09	-	964.4	964.4	-	3,182.3	30.3

*The most recent actuarial valuation was performed as of September 30, 2011 and will be performed biennially.

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

	Year Ended September 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
LRS	2012	\$ 9.4	86.5%	\$ 20.9
	2011	11.9	43.6	19.6
	2010	10.9	42.9	12.9
SPRS	2012	67.9	69.6	149.1
	2011	73.5	48.0	128.4
	2010	60.0	55.4	90.1
SERS	2012	953.9	70.5	2,381.7
	2011	1,017.6	44.5	2,100.4
	2010	869.8	44.5	1,535.7
Life Insurance	2012	65.4	39.2	192.4
	2011	63.6	36.0	152.6
	2010	61.5	40.8	111.9

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Notes to the Financial Statements

NOTE 12 – LEASES

Accounting Policy

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

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

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

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

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

Leases that exist between the State and the State Building Authority (SBA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide financial statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 13 provides information on the amount of SBA's bonds outstanding and a schedule of debt service requirements.

During fiscal year 2008 and 2011, the State entered into building lease agreements with the Michigan Strategic Fund (MSF), a discretely presented component unit. The leases were classified as capital leases and are included in the capital lease disclosures below.

Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$53.9 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$27.6 million, \$38.1 million, and \$17.1 million, respectively, during the fiscal year. Included in these amounts were payments to MSF for principal, interest, and executory costs totaling \$3.3 million, \$9.6 million, and \$.4 million, respectively.

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

Year Ended September 30	Operating Leases	Capital Leases			Total
		Principal	Interest	Executory Costs	
2013	\$ 21.0	\$ 26.8	\$ 38.5	\$ 17.7	\$ 83.0
2014	17.5	30.5	36.5	17.1	84.2
2015	15.0	28.5	34.2	16.7	79.4
2016	10.6	25.8	31.9	15.6	73.3
2017	6.4	24.6	29.3	14.3	68.2
2018-2022	11.7	119.4	107.7	53.9	281.0
2023-2027	-	87.3	56.4	36.1	179.8
2028-2032	-	60.7	14.8	15.7	91.1
2033-2037	-	7.3	3.0	1.6	12.0
Thereafter	-	5.1	.7	.8	6.6
Total	\$ 82.2	\$ 416.2	\$ 353.0	\$ 189.5	\$ 958.7

The above capital leases relate to governmental activities which include the General Fund, other governmental funds, and the internal service funds. A liability of \$416.2 million has been recorded in the government-wide financial statements for the capital lease principal. Included in this liability are the capital leases between the State and MSF totaling \$200.9 million.

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Notes to the Financial Statements

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

Buildings	\$ 455.2
Equipment	60.1
Total	515.3
Accumulated Depreciation	(155.4)
Net Buildings and Equipment	\$ 359.9

Included in the table above is the historical cost and accumulated depreciation for the capital leases between the State and MSF of \$208.3 million and \$33.2 million, respectively.

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
2013	\$.5
2014	.5
2015	.5
2016	.4
2017	.3
2018-2022	.5
Total	\$ 2.7

Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$53.7 million. Total capital lease obligations were \$17.5 million, \$9.7 million, and \$0 for principal, interest, and executory costs, respectively, during the fiscal year.

NOTE 13 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

General Information

General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a subfund of the General 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 2012, the State did not issue any general obligation short-term notes.

Revenue Dedicated Bonds and Notes

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

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Notes to the Financial Statements

Revenue bonds have been issued by the State Building Authority (SBA) to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. In addition, SBA issues commercial paper notes to fund capital projects prior to bonding. Short-term debt activity for the fiscal year ended September 30, 2012, follows (in millions):

	Beginning Balance	Draws	Repayments	Ending Balance
Commercial Paper Notes	\$ 10.5	\$ 120.7	\$ -	\$ 131.2

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

Bonds Issued and Outstanding

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

	Amounts Issued	Outstanding 9/30/2012	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
General Obligation Bonded Debt					
General Obligation Refunding Debt:					
Series 2001 (Refunding)	\$ 183.3	\$ 99.9	2002	2016	4.76%
Series 2002 (Refunding)	300.7	195.9	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	4.9	2008	2013	4.17
Series 2008 A (Refunding) (3)	200.8	182.5	2011	2019	4.94
Series 2008 B (Refunding) (3)(5)	19.4	15.0	2011	2019	4.33
Series 2009 A (Refunding) (3)	64.1	64.1	2022	2026	5.65
Series 2010 A (Refunding)	46.6	46.6	2013	2021	4.00
Series 2010 B (Refunding) (3)(5)	89.0	89.0	2014	2016	2.21
Series 2011 A (Refunding) (3)(5)	44.0	44.0	2022	2026	3.83
Series 2011 B (Refunding) (3)(5)	65.4	65.4	2014	2021	2.56
Recreation and Environmental Protection:					
Series 1992 (1)	246.3	17.3	1994	2013	5.86
Series 1992 A (1)(2)	13.9	0.9	1995	2013	6.17
Series 1993 (1)(2)	16.7	2.2	1996	2014	5.00
Series 2003 (5)	10.0	6.0	2054	2054	0.00
Series 2003 A (1)(3)	200.0	12.3	2007	2013	5.00
Series 2006 A (1)(3)	105.0	105.0	2014	2026	4.58
School Loan Bonds (4):					
Series 2008 A (Refunding)	143.0	116.0	2010	2023	4.54
Series 2009 A (Refunding)	204.1	204.1	2016	2021	6.53
Series 2009 B (Refunding) (7)	193.7	88.6	2010	2030	5.58
Series 2010 B (Refunding)	83.8	83.8	2017	2021	3.67
Series 2011 A	150.0	150.0	2014	2023	3.72
Series 2011 B	30.1	30.1	2023	2023	3.70
Series 2012 A (Refunding)	225.0	225.0	2013	2026	2.39
Total General Obligation Bonded Debt	2,825.6	2,018.3			

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Notes to the Financial Statements

	Amounts Issued	Outstanding 9/30/2012	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
Revenue Dedicated Bonded Debt					
<u>State Park Related:</u>					
2002 – Gross Revenue Bonds	15.5	10.2	2004	2023	3.58%
Total Revenue Dedicated Bonded Debt – State Park Related	15.5	10.2			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Comprehensive Transportation Fund Bonds:					
Series 2003	35.0	12.3	2004	2023	3.61
Series 2005 (Refunding)	62.2	62.2	2009	2023	5.15
Series 2006 (Revenue and Refunding)	53.7	46.1	2007	2031	4.54
Series 2009 (Refunding)	42.3	40.6	2012	2019	4.11
Series 2011 (Refunding)	18.5	18.5	2013	2022	4.35
State Trunkline Fund Bonds:					
Series 1992 (Series A)	253.6	12.1	2000	2013	5.76
Series 1992 (Series B Refunding)	99.6	1.6	2000	2013	5.68
Series 1998 (Series A Refunding)	377.9	182.7	2006	2019	5.03
Series 2004 (Refunding)	103.5	98.2	2006	2022	4.13
Series 2004	185.7	35.6	2008	2019	4.36
Series 2005 (Refunding)	223.0	223.0	2010	2023	5.10
Series 2005 (Series B Refunding)	378.3	283.1	2010	2019	4.81
Series 2006	244.5	181.8	2008	2022	4.74
Series 2009 (Refunding)	146.2	146.2	2018	2027	4.76
Series 2011	91.0	91.0	2014	2037	4.58
Series 2012 (Refunding)	49.3	49.3	2014	2022	4.78
Grant Anticipation Bonds:					
Series 2007	485.1	459.6	2009	2027	4.87
Series 2009 (Series B)	281.9	281.9	2012	2027	7.63
Total Revenue Dedicated Bonded Debt–Transportation Related	3,131.2	2,225.9			
<u>State Building Authority:</u>					
2003 Series I (Refunding)	659.4	294.9	2004	2018	3.79
2003 Series II (Revenue and Refunding)	392.6	174.5	2005	2030	4.55
2004 Series I (Revenue and Refunding)	155.4	73.5	2005	2020	4.21
2005 Series I (Refunding)	293.4	184.6	2006	2034	4.85
2005 Series II (Revenue and Refunding)	242.8	230.4	2007	2037	4.68
2006 Series I A Serial	438.3	438.3	2014	2037	4.80
2006 Series I A Capital Appreciation	395.3	526.0	2014	2037	4.80
2006 Series I B	13.7	3.1	2009	2014	4.80
2007 Series I Multi-modal (6)	96.5	45.0	2009	2032	0.14
2008 Series I (Revenue and Refunding)	192.3	188.9	2010	2039	6.08
2009 Series I (Refunding)	222.1	191.6	2010	2027	4.88
2009 Series II	113.5	109.1	2011	2034	4.99
2011 Series I A (Revenue and Refunding)	409.6	404.8	2012	2046	5.16
2011 Series I B	12.2	12.2	2013	2032	5.69
2011 Series II A (Revenue and Refunding)	180.7	180.5	2012	2042	5.23
2011 Series II B (Revenue and Refunding) (6)	45.8	45.8	2044	2044	0.14
Total State Building Authority Bonded Debt	3,863.5	3,103.3			
Total Revenue Dedicated Bonded Debt	7,010.2	5,339.4			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$9,835.8</u>	<u>\$ 7,357.7</u>			

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Notes to the Financial Statements

- (1) Sections 324.19301 and 324.71301 of the Michigan Compiled Laws (MCL) authorized the issuance of bonds totaling \$800.0 million. As of September 30, 2012, \$791.5 million of such bond proceeds had been received, leaving remaining authorization of \$8.5 million. The sum of the amounts issued in the preceding table differs by the 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 Finance Authority (MFA) Municipal Fund, a discretely presented component unit. An outside trustee for MFA is holding the bonds as an investment of MFA; 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 MFA.
- (3) MCL Section 324.95102 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2012, \$594.6 million of such bond proceeds had been received, leaving remaining authorization of \$80.4 million. The sum of amounts issued in the preceding table differs by the amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.
- (4) The Multi-Modal School Loan Bond Series bear interest at a commercial paper rate and are remarketed at each maturity. For the future debt service requirements, interest is estimated at the interest rate in effect at year-end. There were no Multi-Modal School Loan Bonds outstanding at September 30, 2012.
- (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, 2012, \$215.1 million of such bond proceeds had been recognized as received, leaving remaining authorization of \$784.9 million. Included in the amount recognized as received is \$100.0 million in bonds issued to a discretely presented component unit, MFA. Although no cash traded hands, MFA (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. MFA 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, MFA. 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 MFA for the Strategic Water Quality bonds being issued by MFA 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 MFA. 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) SBA Multi-Modal and variable rate bear interest at a remarketed weekly rate. Estimated interest was computed using the weekly rates as of September 30, 2012.
- (7) This issuance was acquired as an investment by the State Lottery Fund, an enterprise fund, through a public market offering and is reported as part of investments in the fund's statement of net assets.

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Notes to the Financial Statements

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 2009 B	\$ 88.6	\$ 122.7	2010	2030
Revenue Dedicated – Transportation Related:				
State Trunkline – Series 1992 A	12.1	12.1	2006	2013
State Trunkline – Series 1992 B	1.6	1.6	2006	2013
Revenue Dedicated – State Building Authority:				
2006 Series I A	526.0	891.8	2017	2031

Advance Refundings and Defeasances

The State has defeased certain bonds through advance refunds 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.

General Obligation

During the year, the State issued fixed rate General Obligation Environmental Program and Refunding Bonds Series 2011A in the amount of \$44.0 million and Series 2011B for \$65.4 million, maturing in years 2022 to 2026 and 2014 to 2021, respectively. The bonds were issued for the purpose of refunding certain maturities and providing financing for certain environmental programs. From the debt proceeds, \$33.7 million was deposited with an escrow agent to refund General Obligation Environmental Program and Refunding Bonds Series 2009B, \$15.0 million was deposited in the Clean Michigan Initiative Bond Fund, and \$59.6 million was deposited in the Great Lakes Water Quality Bond Fund. The State also issued fixed rate General Obligation School Loan and Refunding Bonds Series 2012A in the amount of \$225.0 million, maturing in years 2013 to 2026. The bonds were issued for the purpose of refunding certain maturities and making loans to school districts. From the debt proceeds, \$60.3 million was deposited with an escrow agent to refund General Obligation School Loan Bonds Series 2010A and \$162.4 million was deposited in the School Loan Revolving Fund. These refundings did not generate an economic gain or loss for the State.

Revenue Dedicated

During the year, the State issued fixed rate Comprehensive Transportation Refunding Bonds Series 2011 in the amount of \$18.5 million, maturing in years 2013 to 2022. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$20.9 million was deposited with an escrow agent to refund Comprehensive Transportation Bonds Series 2001A and \$0.2 million was deposited to the Comprehensive Transportation Bond Proceeds Fund. As a result of this refunding, the State’s debt service decreased by \$3.5 million over the next 10 years. The State achieved an economic gain of \$3.1 million through this refunding. The State also issued fixed rate State Trunk Line Fund Refunding Bonds Series 2012 in the amount of \$49.3 million, maturing in years 2014 to 2022. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$57.7 million was deposited with an escrow agent to refund State Trunk Line Fund Refunding Bonds Series 2002. As a result of this refunding, the State’s debt service decreased by \$10.0 million over the next 10 years. The State achieved an economic gain of \$9.5 million through this refunding.

Michigan
Notes to the Financial Statements

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

	Amounts Outstanding
Recreation and Environmental Protection:	
Series 2003 A	\$ 124.5
Total Recreation and Environmental	\$ 124.5
Comprehensive Transportation Fund Bonds:	
Series 2003 (partial)	\$ 9.9
	9.9
State Trunkline Fund Bonds:	
Series 2002	\$ 56.2
Series 2004 (partial)	85.2
	141.5
Total Transportation Related	\$ 151.3
State Building Authority:	
1997 Series II	\$ 9.6
2001 (MSP Phase III)	6.2
2002 (MSP Phase IV)	6.9
2002 Series III (Refunding)	157.0
2003 Series II (Refunding)	144.9
Total State Building Authority	\$ 324.7

Debt Service Requirements

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

Fiscal Years Ending	General Obligation		State Park and Transportation Related		State Building Authority		Total Principal And Interest
	Principal	Fixed Interest	Principal	Fixed Interest	Principal	Interest	
	2013	\$ 170.8	\$83.8	\$121.0	\$117.8	\$101.5	
2014	224.2	76.5	130.9	112.5	106.8	119.8	770.7
2015	195.4	69.6	137.8	105.7	112.4	114.4	735.3
2016	203.6	62.0	144.7	98.8	118.4	108.6	736.0
2017	189.4	54.6	152.1	91.4	116.1	103.1	706.7
2018-2022	765.2	150.7	795.2	336.8	607.5	462.6	3,117.9
2023-2027	284.2	22.0	691.1	148.2	672.9	384.6	2,203.1
2028-2032	13.7	-	34.9	11.2	679.3	285.9	1,025.0
2033-2037	-	-	28.4	3.7	578.9	151.5	762.5
2038-2042	-	-	-	-	316.6	38.2	354.8
2043-2047	-	-	-	-	58.6	2.9	61.4
2048-2052	-	-	-	-	-	-	-
2053-2057	6.0	-	-	-	-	-	6.0
Total	\$2,052.3	\$519.3	\$2,236.1	\$1,026.1	\$3,469.1	\$1,896.4	\$11,199.2

Interest to maturity for SBA may be significantly smaller than the amount shown in the above table because many of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds.

Michigan
Notes to the Financial Statements

Changes in Bonds and Notes Payable

Changes in bonds and notes payable for the year ended September 30, 2012, was as follows (in millions):

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Bonds Payable:						
General obligation debt	\$ 1,889.2	\$ 364.5	\$ (235.5)	\$ 2,018.3	\$ 170.8	\$ 1,847.5
Revenue bonds	2,271.7	158.8	(194.4)	2,236.1	121.0	2,115.1
State Building Authority	3,175.3	24.2	(96.2)	3,103.3	110.7	2,992.6
Deferred Loss on Refundings:						
General obligation debt	(60.5)	-	4.9	(55.5)	-	(55.5)
Revenue dedicated debt	(13.7)	(0.7)	4.5	(9.9)	-	(9.9)
State Building Authority	(7.2)	-	3.6	(3.6)	-	(3.6)
Unamortized Discounts:						
General obligation debt	(1.0)	(1.3)	0.1	(2.0)	-	(2.0)
Revenue dedicated debt	(1.7)	-	0.1	(1.6)	-	(1.6)
State Building Authority	(1.0)	-	-	(1.0)	-	(1.0)
Unamortized Premiums:						
General obligation debt	43.9	0.3	(6.6)	37.6	-	37.6
Revenue dedicated debt	82.8	21.8	(11.9)	92.7	-	92.7
State Building Authority	80.1	-	(7.1)	73.0	-	73.0
Total bonds and notes payable	<u>\$7,458.4</u>	<u>\$ 567.6</u>	<u>\$ (538.4)</u>	<u>\$ 7,487.6</u>	<u>\$ 402.5</u>	<u>\$ 7,085.1</u>
Plus State Building Authority commercial paper notes reported as "Current Liabilities: Bonds and Notes Payable" on the Statement of Net Assets				<u>131.2</u>	<u>131.2</u>	<u>-</u>
As reported on the Statement of Net Assets				<u>\$ 7,618.8</u>	<u>\$ 533.7</u>	<u>\$ 7,085.1</u>

Michigan
Notes to the Financial Statements

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

Bonds and Notes Payable

Bonds Payable

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

The State universities and the Michigan State Housing Development Authority (MSHDA) utilize June 30 fiscal year-ends. The Farm Produce Insurance Authority utilizes a December 31 fiscal year-end, and the remaining discretely presented component units have September 30 fiscal year-ends.

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

<u>Fiscal Years Ending In</u>	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
2013	\$ 629.8	\$ 511.0	\$ 11.1	\$ 1,151.9
2014	619.3	493.5	10.9	1,123.8
2015	623.9	465.4	10.6	1,100.0
2016	586.1	437.2	10.3	1,033.6
2017	598.6	409.2	10.1	1,017.9
Total five years	<u>3,057.7</u>	<u>2,316.4</u>	<u>53.1</u>	<u>5,427.2</u>
2018-2022	3,238.5	1,594.5	41.3	4,874.3
2023-2027	2,115.5	888.5	43.6	3,047.6
2028-2032	1,356.4	530.5	36.6	1,923.5
2033-2037	1,032.4	276.3	32.1	1,340.8
2038-2042	1,125.2	115.4	27.6	1,268.3
2043-2047	930.5	32.6	15.2	978.3
Thereafter	5,933.5	2.8	1.8	5,938.0
2018 – Thereafter:	<u>15,732.0</u>	<u>3,440.6</u>	<u>198.2</u>	<u>19,370.8</u>
Total	<u>18,789.8</u>	<u>\$ 5,757.0</u>	<u>\$ 251.2</u>	<u>\$ 24,798.0</u>
Deferred amount on refunding	(33.4)			
Unamortized discount	(29.8)			
Unamortized premium	577.2			
Off market borrowings	19.2			
Interest rate swaps	204.6			
Deferred charges – swap reassignment	(19.2)			
Unpaid accretion for Capital				
Appreciation Bonds	(5,980.3)			
Total principal	<u>\$ 13,528.1</u>			

Included in the table above is \$1.5 billion of demand bonds comprised of \$1.2 billion issued by MSHDA and \$247.4 million issued by the State universities. Defeased bonds outstanding of the Michigan Finance Authority (MFA) and MSHDA are not reflected in the table above.

Notes Payable

As of September 30, 2012, MFA has short-term notes outstanding of \$830.6 million and long-term notes outstanding of \$579.1 million.

State universities have short-term notes outstanding of \$.7 million and long-term notes outstanding of \$36.8 million as of June 30, 2012.

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.

Michigan
Notes to the Financial Statements

MFA issues limited obligations bonds to finance loans to private nonprofit institutions of higher education, qualified public or private educational facilities and healthcare providers for capital improvements. As of September 30, 2012, MFA had bonds outstanding of \$7.0 billion. Of this amount, \$586.0 million of the bonds have been defeased in substance, leaving a remaining undefeased balance of \$6.4 billion.

The Michigan Strategic Fund (MSF) issues taxable and tax exempt private activity bonds (PABs), formerly known as industrial development revenue bonds (IDRBs), which are not recorded as liabilities. The total amount of PABs issued by MSF and its predecessor entity for the period January 1, 1979 through September 30, 2012, was \$9.3 billion. The amount of tax-exempt bonds issued during fiscal year 2012 was \$46.4 million. In fiscal year 2012, there were no taxable bonds issued by MSF under the Taxable Bond Program. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

MSHDA issues limited obligation bonds to finance multi-family housing projects. At June 30, 2012, limited obligation bonds had been issued totaling \$801.6 million, of which 38 issues totaling \$407.4 million had been retired. The aggregated principal of all MSHDA outstanding debt may not exceed \$4.2 billion.

MSHDA entered into several interest rate exchange agreements for a total of \$1.2 billion as of June 30, 2012, representing several bond series. In accordance with the exchange agreements, MSHDA pays fixed rates ranging from 3.4% to 5.4%.

NOTE 15 – OTHER LONG-TERM OBLIGATIONS

Primary Government

Other Long-Term Obligations

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

Capital Leases

This liability is described in more detail in Note 12.

Compensated Absences

This liability is described in more detail in Note 1.

Workers' Compensation

The gross amount of workers' compensation liability, \$150.0 million at September 30, 2012, has been recorded at its discounted present value of \$100.8 million, using a discount rate of approximately 8%. The present value of the current portion of this liability is \$22.4 million. In fiscal year 2012, State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$35.7 million.

Net Pension Obligation

This liability is described in more detail in Note 10.

Net Other Postemployment Benefits (OPEB) Obligation

This liability is described in more detail in Note 11.

Pollution Remediation

This liability is measured in accordance with the obligating event criteria defined in Governmental Accounting Standards Boards (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The State's pollution remediation obligation at September 30, 2012, is \$161.5 million (\$13.6 million of which is the current portion). This estimate is based on professional judgment, experience, and historical cost data. Recoveries from other responsible parties, which would reduce the State's remediation liability, are not anticipated. Remediation obligation estimates may change over time due to changes in technology, prices, and regulations.

Superfund sites account for approximately \$138.8 million of this total. The State has numerous instances of hazardous waste contamination that qualify as Superfund sites. Superfund is the federal government's program to clean up these hazardous waste sites. Under this program, the State is required to pay or ensure payment of 10% of the cost of remediation action and 100% of the cost of operations and maintenance.

Other pollution obligations include funds committed for remediation activities for publicly-funded response activities and state-liable sites. Not included in the liability is approximately \$28.4 million for state-owned sites where a legal obligation exists but the GASB Statement No. 49 criteria for accruing a liability has not been met.

Michigan
Notes to the Financial Statements

Financed Infrastructure Projects

This liability represents contracts entered into by the Department of Transportation for the design, building, and financing of construction projects. The liability was fully liquidated at September 30, 2012.

Pension Supplement

This liability represents amounts due to the State Employees' Pension Benefits Fund for supplemental pension payments payable to retirees that retired under the provisions of Public Act 185 of 2010. That legislation authorized an incentivized retirement option for members of the State Employees' Retirement System defined benefit plan, with one of the provisions being that those retirees would receive a supplement for 60 months equal to 1/60 of the compensated absences balances forfeited under the act that would have otherwise been payable at retirement.

Other Claims & Judgments

The governmental activities estimated liability for other claims and litigation losses, \$628.9 million at September 30, 2012, 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. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability recorded for other claims and judgments within business-type activities includes overpayments by employers to the Michigan Unemployment Compensation Funds totaling \$36.9 million.

Durant Settlement

The reported estimated liability for litigation losses includes the Durant, et al v State of Michigan, et al consolidated cases, which totaled \$108.1 million at September 30, 2012. This amount will, over time, be paid to each "non-Durant" school district for its underfunded State mandated program costs if certain requirements are met. See Note 24 for additional disclosure regarding the Durant case and other contingencies.

Federal Advances

The Michigan Unemployment Compensation Funds received no additional repayable federal advances during fiscal year 2012. During the year, the balance of repayable federal advances was paid in full, primarily using proceeds from a Michigan Finance Authority bond issuance.

Michigan
Notes to the Financial Statements

Changes in Other Long-Term Obligations

Changes in long-term liabilities for the year ended September 30, 2012, are summarized as follows (in millions):

Governmental Activities	Beginning Balance Restated**	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other Long-term Obligations:						
Capital lease obligations:						
Component units	\$ 204.2	\$ -	\$ 3.3	\$ 200.9	\$ 3.7	\$ 197.2
Others	203.3	41.1	29.2	215.3	23.1	192.1
Compensated absences	380.8	363.3	333.5	410.7	201.7	209.0
Workers' compensation	116.1	10.5	25.8	100.8	22.4	78.4
Net pension obligations	623.9	182.7	-	806.6	-	806.6
Net OPEB obligations	2,401.0	343.0	-	2,744.0	-	2,744.0
Pollution remediation	165.7	9.8	14.0	161.5	13.6	147.9
Financed infrastructure projects	36.3	-	36.3	-	-	-
Pension Supplement*	70.5	-	16.5	53.9	16.5	37.4
Other claims and judgments	491.1	212.3	74.4	628.9	113.9	515.0
Durant settlement	140.6	-	32.5	108.1	38.8	69.4
Total Governmental Activities	<u>\$ 4,833.5</u>	<u>\$ 1,162.9</u>	<u>\$ 565.6</u>	<u>\$ 5,430.8</u>	<u>\$ 433.7</u>	<u>\$ 4,997.1</u>
Business-type Activities						
Other Long-term Obligations:						
Advances from Federal government	\$ 3,181.8	\$ -	\$ 3,181.8	\$ -	\$ -	\$ -
Lottery prize awards*	284.5	17.2	50.0	251.7	39.8	211.9
Compensated absences	2.2	1.8	1.6	2.4	1.3	1.1
Pension Supplement*	0.8	-	0.2	0.6	0.2	0.4
Other claims and judgments	59.5	-	22.6	36.9	-	36.9
Total Business-type Activities	<u>\$ 3,528.8</u>	<u>\$ 19.0</u>	<u>\$ 3,256.2</u>	<u>\$ 291.6</u>	<u>\$ 41.4</u>	<u>\$ 250.3</u>

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

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

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

Discretely Presented Component Units

Michigan Education Trust

Michigan Education Trust (MET) offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is 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, 2012, shows the actuarial present value of future tuition obligations to be \$157.0 million, as compared to the actuarially determined market value of assets available of \$174.4 million. The actuarial assumptions used include: a projected tuition increase rate of 7.1% for all future years; and a discount rate of 1.3%.

The actuarial report on the status of MET Plan D, as of September 30, 2012, shows the actuarial present value of future tuition obligations to be \$896.0 million, as compared to the actuarially determined market value of assets available of \$776.2 million. The actuarial assumptions used include: a projected tuition increase rate of 7.1% for all future years; and a discount rate of 6.0%.

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

NOTE 16 – INCOME TAX CREDITS AND REFUNDS

Income Tax Credits

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

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

The following table summarizes the various credits, reported on the "Tax credits" 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	\$ 424.9
Senior citizens	332.9
Blind and disabled	56.3
Farmland preservation	40.2
Veterans	1.3
Subtotal – property tax credits	<u>855.6</u>
Earned income tax credit	358.9
Energy efficient home improvement credit	10.5
Historic preservation credit	.6
Adoption credit	.5
Home heating (exclude federal share)	.1
Stillbirth credit	.1
Total tax credits	<u>\$ 1,226.3</u>

Income Tax Refunds Payable

The \$757.8 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.

Michigan
Notes to the Financial Statements

NOTE 17 – DEFERRED COMPENSATION PLANS

The State participates in two deferred compensation plans that allow employees to defer a portion of their salary 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 Technology, Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. The 457 plan and the 401k plan are combined for reporting purposes under the heading of "State of Michigan Deferred Compensation Funds."

The Employer makes no contribution to the 457 plan. Generally, the Employer does not make matching contributions to the 401k plan; however, the State of Michigan has occasionally made matching contributions to the 401k plan as part of certain State 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 investments in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among 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 for State of Michigan employees. 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, 2012, were \$1.7 and \$1.6 billion, respectively.

NOTE 18 – INTERFUND RECEIVABLES AND PAYABLES

Primary Government

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

<u>Due From</u>	<u>Due To</u>					<u>Total</u>
	General Fund	Non-Major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ -	\$ 1.1	\$.8	\$ 31.2	\$ 33.1
School Aid Fund	944.0	-	-	-	-	944.0
Non-Major Governmental Funds	34.0	63.1	.1	-	4.0	101.2
State Lottery Fund	-	-	-	-	.2	.2
Unemployment Compensation Funds	-	29.1	3.8	-	-	32.8
Non-Major Enterprise Funds	-	-	-	-	.2	.2
Internal Service Funds	-	-	-	25.0	2.5	27.5
Fiduciary Funds	.7	-	-	-	2.0	2.7
Timing Difference Between Fiduciary Funds	-	-	-	-	.4	.4
Governmental Funds – Long Term*	-	-	-	-	15.4	15.4
Total	<u>\$ 978.8</u>	<u>\$ 92.2</u>	<u>\$ 5.0</u>	<u>\$ 25.8</u>	<u>\$ 55.9</u>	<u>1,157.7</u>

*This represents the current portion of the long-term liability recorded in the government-wide statements for amounts owed by the governmental funds to the State Employees' Pension Benefits Fund for supplemental pension payments. This liability is further described in Note 15.

Interfund receivables and payables are recorded for borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, payroll liabilities for group insurance and retirement, and 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: \$5.6 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.

Michigan
Notes to the Financial Statements

NOTE 19 – INTERFUND COMMITMENTS

Mackinac Bridge Authority

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

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

As of September 30, 2012, MBA has repaid a total of \$12.3 million of the advance from the Michigan Transportation Fund, leaving a balance of \$50.8 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 20 – TRANSFERS

Interfund transfers as of September 30, 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	\$ -	\$ 78.6	\$ 486.9	\$ 565.6
School Aid Fund	-	-	93.6	93.6
Non-Major Governmental Funds	45.6	-	1,247.9	1,293.5
State Lottery Fund	8.5	778.4	.2	787.1
Unemployment Compensation Funds	1.0	-	36.9	37.9
Non-Major Enterprise Funds	175.8	-	-	175.8
Internal Service Funds	3.0	-	-	3.0
Fiduciary Funds	.2	-	-	.2
Total	<u>\$ 234.1</u>	<u>\$ 857.1</u>	<u>\$ 1,865.5</u>	<u>\$ 2,956.6</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, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

NOTE 21 – FUND DEFICITS

Primary Government

Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$8.5 million. The fund deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$136.3 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Discretely Presented Component Units

As of September 30, 2012, the Michigan Education Trust has a negative net asset balance of \$102.5 million. The net assets increased during fiscal year 2012, primarily due to favorable investment performance and a lower increase in tuition and fees than assumed.

The Michigan Finance Authority, as of September 30, 2012, had a net asset deficit of \$992.6 million, which was the result of liabilities recorded for bond issuances. Payments to be received by the Tobacco Settlement and the Unemployment Obligation Assessment debt service funds have not yet been collected and are not subject to accrual under generally accepted accounting principles.

Michigan
Notes to the Financial Statements

NOTE 22 – FUND BALANCES AND NET ASSETS

Fund Balance Classifications – Governmental Funds

The following table provides additional detail regarding the fund balances reported on the Governmental Funds Balance Sheet at September 30 (in millions):

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Capitol Projects Funds	Permanent Funds	Total
Non-Spendable:							
Inventory and prepaids	\$ 14.4	\$ -	\$.1	\$ -	\$ 15.0	\$ -	\$ 29.4
Long term notes/receivables	223.6	-	-	-	-	-	223.6
Permanent fund principal	-	-	213.2	-	-	723.2	936.4
Restricted							
Education	3.0	440.1	-	160.2	-	-	603.4
Public safety and corrections	22.1	-	2.4	-	-	4.6	29.1
Conservation, environment, recreation and agriculture	133.3	-	185.0	1.4	.1	249.4	569.3
Human and health services	35.6	-	1.1	-	-	-	36.7
Transportation	-	-	98.9	-	820.2	-	919.1
Labor, commerce, and regulatory	89.0	-	42.8	-	-	-	131.7
Other purposes	81.6	-	11.9	68.6	-	-	162.1
Committed							
Education	.9	-	-	-	-	-	.9
Public safety and corrections	37.5	-	-	-	-	-	37.5
Conservation, environment, recreation and agriculture	21.7	-	-	-	-	-	21.7
Human and health services	217.1	-	-	-	-	-	217.1
Labor, commerce, and regulatory	15.8	-	-	-	-	-	15.8
Other purposes	512.4	-	196.9	-	-	-	709.4
Assigned							
Education	1.0	-	-	-	-	-	1.0
Public safety and corrections	18.9	-	-	-	-	-	18.9
Conservation, environment, recreation and agriculture	.5	-	-	-	-	-	.5
Human and health services	19.0	-	-	-	-	-	19.0
Labor, commerce, and regulatory	.4	-	-	-	-	-	.4
Other purposes	28.7	-	-	-	-	-	28.7
Unassigned	979.2	-	-	-	(144.8)	-	834.4
Total Fund Balances	\$ 2,455.7	\$ 440.1	\$ 752.4	\$ 230.2	\$ 690.5	\$ 977.2	\$ 5,546.2

Michigan
Notes to the Financial Statements

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	\$ 2.8	\$ 806.6	\$ 809.5
Public safety and corrections	14.5	9.9	24.4
Conservation, environment, recreation, and agriculture	174.5	122.5	297.0
Health and human services	5.0	31.5	36.5
Transportation	-	786.6	786.6
Labor, commerce, and regulatory	123.3	-	123.3
Other purposes	103.6	22.8	126.5
Funds Held as Permanent Investments:			
Expendable	-	254.1	254.1
Nonexpendable	2.9	933.4	936.4
Total Restricted Net Assets - Governmental	\$ 426.7	\$ 2,967.5	\$ 3,394.2
Business-Type Activities:			
Restricted For:			
Unemployment compensation	\$ 1,241.7	\$ -	\$ 1,241.7
Other purposes	35.0	-	35.0
Total Restricted Net Assets – Business - Type	\$ 1,276.7	\$ -	\$ 1,276.7
Total Primary Government:			
Restricted For:			
Education	\$ 2.8	\$ 806.6	\$ 809.5
Public safety and corrections	14.5	9.9	24.4
Conservation, environment, recreation, and agriculture	174.5	122.5	297.0
Health and human services	5.0	31.5	36.5
Transportation	-	786.6	786.6
Unemployment compensation	1,241.7	-	1,241.7
Labor, commerce, and regulatory	123.3	-	123.3
Other purposes	138.6	22.8	161.4
Funds Held as Permanent Investments:			
Expendable	-	254.1	254.1
Nonexpendable	2.9	933.4	936.4
Total Restricted Net Assets – Primary Government	\$ 1,703.4	\$ 2,967.5	\$ 4,670.9

Michigan
Notes to the Financial Statements

NOTE 23 – DISAGGREGATION OF PAYABLES

The line “Current Liabilities: Accounts payable and other liabilities,” as presented on the government-wide Statement of Net Assets as of September 30, 2012, consisted of the following (in millions):

	General Fund	School Aid Fund	Non-Major Govern- mental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-Major Enterprise Funds	Total
Medicaid programs	\$ 891.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 891.2
Non-Medicaid health programs	285.9	-	-	-	-	-	-	285.9
Human Services programs	172.8	-	.3	-	-	-	-	173.1
Transportation programs	-	-	459.0	-	-	-	-	459.0
School Aid programs	-	189.0	-	-	-	-	-	189.0
Other state programs	213.6	-	180.5	-	-	-	-	394.1
Merit Award scholarships	-	-	.9	-	-	-	-	.9
Payroll and withholdings	113.4	-	14.9	-	.5	-	.3	129.1
Tax refunds other than income tax	616.3	11.5	6.9	-	-	-	-	634.7
Unearned receipts	53.1	1.9	4.1	-	-	-	-	59.1
Amounts held for others	32.7	-	38.1	-	2.3	-	-	73.1
Capital Projects–Non Transportation	-	-	28.3	-	-	-	-	28.3
Prize awards	-	-	-	-	101.1	-	-	101.1
Liquor purchase	-	-	-	-	-	-	78.2	78.2
Unemployment payments	-	-	-	-	-	20.5	-	20.5
Internal Service Fund liabilities	-	-	-	85.5	-	-	-	85.5
Due to fiduciary funds*	-	-	-	53.5	-	-	-	53.5
Miscellaneous	-	-	-	-	7.8	-	.4	8.2
Total	\$ 2,379.0	\$ 202.4	\$ 733.1	\$139.0	\$111.7	\$ 20.5	\$ 79.0	\$ 3,664.6

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

Effective January 1, 2008, the State replaced the Single Business Tax with the Michigan Business Tax (MBT). Effective January 1, 2012, the MBT was replaced by the Corporate Income Tax (CIT). However, a small number of taxpayers with certificated credits may continue to file under the MBT provisions until their credits expire. Beginning in fiscal year 2008, the State did not estimate a business tax liability on the accrual basis of accounting due to the lack of information. The State is still unable to estimate an accrual because the data needed to compare tax payments received to the total tax liability is not available. Therefore, any potential tax refunded (payable), or tax overpayments that will be applied by taxpayers against subsequent tax liability periods (carried forward), is not measurable and has not been recorded in this fiscal year.

NOTE 24 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

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

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

Michigan
Notes to the Financial Statements

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

The second suit, Adair et al v State et al ("Adair"), was filed on November 15, 2000, by more than 400 school districts and asserts that the State has, by operation of law, increased the level of various specified activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to December 23, 1978, added various specified new activities or services by State law, including mandatory increases in student instruction time, without providing funding for these new activities and services, all in violation of the Headlee Amendment. The Adair plaintiffs sought an unspecified money judgment equal to the reduction in the State financed proportion of necessary costs incurred by the plaintiff school districts for each school year from 1997-1998 through the date of any judgment and for attorneys' fees and litigation costs. The Adair plaintiffs also sought a declaratory judgment that the State has failed to meet its funding responsibility under the Headlee Amendment to provide the plaintiff school districts with revenues sufficient to pay for the necessary increased costs for activities and services first required by State law after December 23, 1978, and to pay for increases in the level of required activities and services beyond that which was required by State law as of December 23, 1978.

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

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

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

The other three claims involve statutes that were enacted after the court's 1997 Durant I decision. The court ruled that two of these post-Durant I statutes are not new mandates because the activities are either not new or are merely permissive. The third claim involves the record keeping activities and the operation of the Center for Educational Performance and Information (CEPI), which was created by executive order in 2000 (Michigan Compiled Laws (MCL) Section 388.1752; Executive Order (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 Section 388.1752 or EO 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.

Michigan
Notes to the Financial Statements

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

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

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

Both parties filed applications for leave to appeals in the Michigan Supreme Court. On April 3, 2009, the Michigan Supreme Court granted leave on two issues: (1) whether the prohibition of unfunded mandates in Article 9, Section 29 of the State Constitution, requires plaintiffs to prove specific costs, either through reallocation of funds or out-of-pocket expenses in order to establish their entitlement to a declaratory judgment; and (2) whether plaintiffs are entitled to recover the "costs incurred in maintaining" this suit pursuant to Article 9, Section 32, of the State Constitution.

Following the submission of briefs, the Michigan Supreme Court heard oral arguments on October 6, 2009.

On July 14, 2010, the Michigan Supreme Court issued a 4-3 decision in favor of the plaintiffs on both issues. The court held that the school district record keeping requirements was an increase in the level of activities or services mandated by the State and therefore, subject to Headlee. The court also held that in a declaratory judgment action under Headlee, where no legislative appropriation is made, a plaintiff is not required to show a quantified dollar amount increase in necessary costs, and the State has the burden to demonstrate that the school district's costs were not necessary under one or more of the exceptions in MCL 21.233(6) (a) through (d). In evaluating whether the costs from an increased level of activity were necessary, the question is what would be the cost to the State if it performed the mandated activity. The court also held that plaintiffs are entitled to attorney fees sustained in maintaining this action.

The case was remanded to the Court of Appeals to determine costs and attorney fees. Based on information provided by the plaintiffs' attorney, the state estimates that he will be seeking between \$1.8 million to \$3.6 million in attorney fees, which will be paid from fiscal year 2011's budget. The Legislature has only appropriated \$1.0 million in section 22b(7) of the State School Aid Act, MCL 388.1622b(7) for this anticipated expense. Subsequent to September 30, the Legislature appropriated \$25.6 million to satisfy the Adair record-keeping funding requirement for fiscal year 2011.

The case was remanded to the Court of Appeals to determine cost and attorney fees. An evidentiary hearing before the court-appointed Special Master occurred in June 2011. On November 6, 2012, the Court of Appeals declined to award attorney fees for the original action concluding that Plaintiffs failed to carry their burden of proving the hours reasonably expended in litigating the recordkeeping claim. The Court of Appeals also determined that Plaintiffs were not entitled to costs or attorney fees for post-judgment proceedings. The Court of Appeals remanded to the Special Master for additional proofs and calculation of other costs. On remand the parties stipulated that other costs incurred up to July 14, 2010 were \$175,000. The Legislature allocated up to \$1.0 million in Section 22b(7) of the State School Aid Act, MCL 388.1622b(7) for this anticipated expense. The Legislature appropriated \$25.6 million in fiscal year 2011, and \$34 million in fiscal year 2012 to be used solely for the purpose of paying necessary costs related to the state-mandated collection, maintenance, and reporting of data to this state.

On January 19, 2011, the Adair plaintiffs filed a new complaint seeking, among other things, a declaratory judgment that the appropriation is insufficient to pay the full costs of the imposed record keeping requirements, and that the new requirements for teacher and administrator evaluations enacted in the Race to the Top legislation, 2009 Public Acts 201-205, also violate the Headlee Amendment. The complaint also sought compensable damages for the amount of costs incurred by the school districts to provide required data and attorney fees, injunctive relief to cease requiring school districts from complying with the record keeping requirements, and injunctive relief to enjoin Defendants from enforcing the Race to the Top legislation.

On October 10, 2011, plaintiffs filed a second amended complaint primarily based on the changes in the teacher and administrator evaluation provisions contained in 2011 PA 100-102, the July 2011 amendments to Section 1249 of the School Code, MCL 380.1249, as well as the changes to the Tenure Act. In addition, the districts added a count related to the Teacher Student Data Link and allege that Section 94a of the School Aid Act mandates that schools collect and report new data without an appropriation to pay the districts for costs of the new activity including: "costs incurred for their staff members necessary to perform the required services for the purpose of TSDL data acquisition, maintenance and reporting to CEPI, to acquire necessary software to track, record and report the required data, and to train school district staff in order to otherwise implement the new TSDL reporting requirements, all of which have never before been required by the State."

Michigan
Notes to the Financial Statements

On August 10, 2012, the Adair plaintiffs filed a new original action in the Court of Appeals seeking, among other things, a declaratory judgment that the appropriation for 2012-13 in 2012 PA 201 is insufficient to pay the full costs of the imposed record keeping requirements adding allegations concerning information collected or reported in the Michigan Electronic Information System (MEIS). As with the 2011 case, the complaint again alleges that the current funding method improperly reduced aid to districts. The complaint again alleges that the requirements for teacher and administrator evaluations enacted in the Race to the Top legislation, 2009 Public Acts 201-205, and 2011 PA 100-102, the July 2011 amendments to section 1249 of the School Code, MCL 380.1249, as well as the changes to the Tenure Act, violate the Headlee Amendment and alternatively that the definitions of activity and service in the MCL 21.232(1) and MCL 21.234(1) are unconstitutional and contrary to the intent of the voters. Plaintiffs allege this is occurring in direct violation of the provisions of the second sentence of the Constitution of 1963, art 9, § 29, the Headlee Amendment. The complaint seeks declaratory relief, injunctive relief to cease requiring school districts from complying with the record keeping requirements, and injunctive relief to enjoin Defendants from enforcing the educator evaluation provisions. The complaint also seeks compensatory damages related to the funding mechanism and the educator evaluation claims.

Plaintiffs allege this is occurring in direct violation of the provisions of the second sentence of the Constitution of 1963, Article 9, Section 29, the Headlee Amendment. Although this is a declaratory judgment action, plaintiffs are entitled to costs including attorney fees estimated between \$1.2 million and \$4 million. Plaintiffs claim cost of compliance with the reporting is over \$34 million annually. The cost of compliance with the teacher and administrator evaluation requirements has not been determined.

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, 2012, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

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 a 25-year period starting in 1998, 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 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, and will recover funds withheld in past years and placed in an escrow account. At present, the escrowed amount is approximately \$130 million. At worst, an entire year's payment can be eliminated for years into the future 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. The matter is being decided by a three-person arbitration panel. Various procedural motions have been considered by the Panel since the arbitration commenced in July 2010. The hearing of common issues of fact began April 2012, and the hearing of individual state cases began in mid-2012. The arbitration of Michigan's 2003 claims will likely conclude early 2013. Because the NPM Adjustment is an annual event under the MSA, the arbitration of claims related to calendar year 2004 should commence shortly after the completion of the year 2003 arbitration.

Michigan
Notes to the Financial Statements

Contingent Liability for Local School District Bonds

Article 9, Section 16, of the Michigan Constitution resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. If, for any reason, a qualified school district will be, or is, unable to pay the principal and interest on its qualified bonds when due, the school district shall borrow, and the State shall lend to it, any amount necessary for the school district to avoid a default on its qualified bonds. In the event that adequate funds are not available in the School Loan Revolving Fund to make such a loan, the State is required to make loans from the General Fund. As of September 30, 2012, the principal amount of qualified bonds outstanding was \$13.5 billion. Total debt service requirements on these bonds including interest will approximate \$1.5 billion in 2013. 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, 2012, is \$1.1 billion. Interest due on these loans as of September 30, 2012, is \$296.2 million.

Commitments and Encumbrances

The Department of Transportation has construction and consultant commitments that will be paid with transportation related funds. As of September 30, 2012, these commitments equaled \$542.8 million; a portion of this balance, \$81.0 million, has been encumbered.

Encumbrance balances are comprised of grant agreements and other contracts the State of Michigan has entered into with vendors for services or goods not yet performed or received as of year-end. A portion of these commitments will be funded with current fund balances. These amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance classifications. Resources provided by future bond proceeds, taxes, federal grants, and local and private revenues will fund the remaining commitments. The following table shows total governmental fund encumbrances as of September 30, 2012 (in millions):

	General Fund	School Aid Fund	Other Funds	Total
Restricted				
Education	\$ 1.4	\$ 7.9	\$ -	\$ 9.3
Public safety and corrections	17.4	-	-	17.4
Conservation, environment, recreation, and agriculture	65.9	-	52.8	118.7
Health and human services	32.2	-	-	32.3
Transportation	-	-	443.3	443.3
Labor, commerce, and regulatory	9.5	-	.6	10.1
Other purposes	16.0	-	.4	16.4
Committed				
Public safety and corrections	.6	-	-	.6
Conservation, environment, recreation, and agriculture	2.0	-	-	2.0
Health and human services	12.2	-	-	12.2
Labor, commerce, and regulatory	3.6	-	-	3.6
Other purposes	49.2	-	.4	49.5
Assigned				
Education	1.0	-	-	1.0
Public safety and corrections	19.0	-	-	19.0
Conservation, environment, recreation, and agriculture	.9	-	-	.9
Health and human services	19.3	-	-	19.3
Labor, commerce, and regulatory	.4	-	-	.4
Other purposes	35.7	-	-	35.7
Total Encumbrances	\$ 286.3	\$ 7.9	\$ 497.5	\$ 791.7

Michigan
Notes to the Financial Statements

Discretely Presented Component Units

Student Loan Guarantees

The Michigan Guaranty Agency (MGA), a fiduciary fund of the Michigan Finance Authority, is contingently liable for student loans made by financial institutions that qualify for guaranty. The State, other than MGA, is not liable for these loans. The default ratio for loans guaranteed by MGA is below 5% for the fiscal year ended September 30, 2012. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2012, is 100% for loans made prior to October 1, 1993, 98% for loans made from October 1, 1993 to September 30, 1998, and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience, MGA could be liable for up to 25% of defaulted loans. While management believes the MGA expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% is \$691.5 million as of September 30, 2012. Management does not expect that all guaranteed loans could default in one year.

The MGA has entered into commitment agreements with all lenders that provide, among other things, that the MGA 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 MGA was in compliance with this requirement as of September 30, 2012.

Multi-Family Mortgage Loans

As of June 30, 2012, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$77.7 million and single-family mortgage loans in the amount of \$8.9 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.

Michigan
Notes to the Financial Statements

NOTE 25 – RISK MANAGEMENT

Primary Government

General

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

The State has established two internal service funds, which are described below, to account for certain aspects of the risk management program. Fund expenditures (expenses) are recognized in the paying funds in a manner similar to purchased commercial insurance. For other uninsured losses not covered by an internal service fund program, such as general liability and property losses, the State recognizes fund liabilities in the fund incurring the loss as follows: governmental funds record an expenditure when a loss is due and payable; proprietary funds record an expense when it is probable that a loss has occurred and the amount can be reasonably estimated. As explained more fully in Note 15, losses for workers' compensation and certain types of litigation losses have been recognized as liabilities in the government-wide financial statements.

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2012, expenditures for payments to former State employees (not including university employees) totaled \$16.9 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 Governmental Accounting Standards Board (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 Technology, Management and Budget. The automobile liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of \$7.1 million. This includes a long-term portion, which is recorded at \$4.9 million.

Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2012 and 2011 are as follows (in millions):

	2012	2011
Balance - beginning	\$ 7.4	\$ 5.7
Current year claims and changes in estimates	1.6	2.5
Claim payments	(1.8)	(.8)
Balance - ending	\$ 7.1	\$ 7.4

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, 2012 and 2011 are as follows (in millions):

	2012	2011
Balance - beginning	\$ 116.1	\$ 113.7
Current year claims and changes in estimates	10.5	27.7
Claim payments	(25.8)	(25.3)
Balance - ending	\$ 100.8	\$ 116.1

Workers' compensation is further described in Note 15.

Michigan
Notes to the Financial Statements

State Sponsored Group Insurance Fund

The Department of Technology, Management and Budget and the Civil Service Commission use this fund to account for employee benefit programs, which are largely self-funded. In compliance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the retiree insurance benefits programs are no longer reported in this fund. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$132.9 million. This includes a long-term portion, which is recorded at a discounted present value of \$89.8 million. For all claims incurred prior to October 1, 2012, the discounted present value of the long-term disability liability was calculated over a 20-year period using a discount rate of approximately .65%.

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 \$40.0 million at September 30, 2012. Unrestricted net assets totaled \$136.4 million at September 30, 2012.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee benefit programs for the fiscal years ending September 30, 2012 and 2011 are as follows (in millions):

	2012	2011
Balance - beginning	\$ 134.5	\$ 139.0
Current year claims and changes in estimates	674.6	657.6
Claim payments	(676.1)	(662.1)
Balance - ending	\$ 132.9	\$ 134.5

Discretely Presented Component Units

State Universities

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

NOTE 26 – PLEDGED REVENUES

As authorized by legislation, certain revenues of the primary government are pledged to secure debt of the State's discretely presented component units, and to pay the debt service on those bond issuances. In 2006 the Michigan Tobacco Settlement Finance Authority (MTSFA) was created to issue tobacco settlement bonds, the proceeds of which were used to provide funding for the 21st Century Jobs Trust Fund, as well as the School Aid Fund, the General Fund, and a reserve fund. MTSFA was reported as a blended component unit of the State; MTSFA subsequently was transferred by Executive Order 2010-2 to the Michigan Finance Authority (MFA), a discretely presented component unit of the State. The bonds were securitized by a portion of the State's Tobacco Settlement Revenues (TSRs), which were payable to the State under the Master Settlement Agreement entered into by participating cigarette manufacturers in 1998. Beginning April 1, 2008, 13.34% of the State's share of the TSRs was pledged to pay tobacco settlement bonds issued in 2006; beginning April 1, 2010, 10.77% of TSRs was pledged to pay tobacco settlement bonds issued as part of the 2007 tobacco securitization. The State's share of the settlement is \$310.9 million per year until 2017; from 2018-2025 the State's share is \$348.3 million per year. The actual amount received by the State is less, and is affected by market and other factors related to cigarette manufacturing. For the period ended September 30, 2012, the State's pledged revenue to MFA was \$61.8 million. Of that amount \$61.4 million was received in MFA's tobacco settlement debt service fund to contribute to annual debt service requirements of \$65.3 million. Shortfalls in the receipt of pledged revenue are made up by investment income if available or other resources; debt service on these bonds is payable solely from pledged TSRs.

Michigan
Notes to the Financial Statements

The State Legislature issued Public Acts 267 and 268 of 2011, which permitted MFA to issue bonds to repay Federal advances to the State's Unemployment Trust Account, avoid additional advances, pay unemployment benefits, and minimize the impact on unemployment insurance tax rates. This legislation also created the Unemployment Obligation Trust Fund to receive unemployment obligation assessment revenue created by the legislation and assessed on employers as long as obligations are outstanding. The assessment rate shall be an amount sufficient to ensure timely payment of debt service on the Unemployment Obligation Trust bonds. All revenue collected or earned in the fund is pledged to MFA for payment of the bonds or for other purposes specified in the legislation. During fiscal year 2012, \$255.5 million was recognized as revenue in the State's Unemployment Obligation Trust Fund and was paid to MFA's unemployment obligation assessment debt service fund; no regular debt service was paid in the current fiscal year by MFA due to the refunding of 2011 bonds by Unemployment Obligation Assessment Revenue Bonds Series' 2012A, 2012B, and 2012C. Remaining principal and interest requirements of the secured bonds totaled \$3.8 billion at September 30, 2012.

NOTE 27 – SUBSEQUENT EVENTS

Long-Term Borrowing

On November 28, 2012, the State issued its State of Michigan General Obligation Environmental Program Refunding Bonds, Series 2012 in the amount of \$92.3 million as fully registered bonds bearing interest which is payable semi-annually commencing May 1, 2013. Proceeds of this issuance were used to refund State of Michigan General Obligation Environmental Program and Refunding Bonds Series 2005A and 2005B.

Short-Term Borrowing

On November 15, 2012, the State Building Authority (SBA) issued \$148.2 million of commercial paper notes bearing an interest rate of .21%. The notes matured on January 17, 2013.

On January 17, 2013, SBA issued \$155.1 million of commercial paper notes bearing an interest rate of .14%. The notes will mature on March 21, 2013.

Long-Term Borrowing – Discretely Presented Component Units

Subsequent to their respective year-ends, the following discretely presented component units issued long-term debt, some of which are for purposes of refinancing (in millions):

	<u>Bonds Issued</u>
Eastern Michigan University	\$ 135.8
Ferris State University	13.8
Michigan Finance Authority	369.4
Michigan State Housing Development Authority	461.2
Oakland University	44.2
	<u>\$ 1,024.2</u>

Short-Term Borrowing – Discretely Presented Component Units

On December 13, 2012, the Michigan Finance Authority (MFA) issued \$2.1 million of Public School Academy State Aid Revenue Notes bearing a true interest cost of 1.95%. The notes will mature on August 20, 2013.

On February 1, 2013, MFA issued \$6.0 million of State Aid Revenue Notes within the Municipal Bond Fund—Local Municipalities Subfund, bearing a true interest cost of 1.60%. The notes will mature on July 22, 2013.

Executive Reorganization

Executive Order 2013-1, effective March 18, 2013, will consolidate all functions related to the regulation of insurance and financial services into a new principal department, the Department of Insurance and Financial Services.



II. FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012
 (In Thousands)

	GENERAL FUND			VARIANCE WITH FINAL BUDGET
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Beginning Budgetary Fund Balance Restated	\$ 1,354,522	\$ 1,354,522	\$ 1,354,522	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	8,200,200	8,468,768	8,468,768	-
Federal	23,000	54,839	54,839	-
Local	400	3,174	3,174	-
Licenses and permits	22,000	16,312	16,312	-
Services	9,500	10,527	10,527	-
Miscellaneous	220,500	300,016	300,016	-
Bonds issued	-	7,996	7,996	-
Proceeds from sale of capital assets	-	3	3	-
Transfers in	174,500	182,504	182,504	-
Restricted Revenues:				
Taxes	3,235,235	4,211,540	4,211,540	-
Federal	15,444,050	14,520,393	14,520,393	-
Local	175,836	268,415	268,415	-
Licenses and permits	370,841	285,708	285,708	-
Services	324,648	296,167	296,167	-
Miscellaneous	992,953	545,634	545,634	-
Bonds issued	-	261,284	261,284	-
Refunding bonds issued	-	498	498	-
Premium on bonds issued	-	223	223	-
Proceeds from sale of capital assets	-	2,845	2,845	-
Transfers in	56,155	51,604	51,604	-
Total Revenue Inflows	<u>29,249,818</u>	<u>29,488,450</u>	<u>29,488,450</u>	-
Amounts Available for Appropriation	<u>30,604,339</u>	<u>30,842,972</u>	<u>30,842,972</u>	-
Charges to Appropriations (outflows):				
Legislative Branch	131,324	128,081	127,886	195
Judicial Branch	256,973	236,238	235,637	600
Executive Branch:				
Agriculture and Rural Development	72,219	66,003	65,992	11
Attorney General	74,429	70,935	70,784	151
Civil Rights	13,730	13,211	12,847	364
Colleges and Universities Grants	1,247,775	1,178,575	1,178,451	124
Community Health	14,159,351	13,954,222	13,938,365	15,858
Corrections	1,917,428	1,944,484	1,936,585	7,899
Education	236,063	369,256	368,563	693
Environmental Quality	390,984	234,208	234,196	12
Executive Office	4,399	4,599	4,450	149
Human Services	6,797,018	5,918,149	5,881,058	37,091
Licensing and Regulatory Affairs	568,247	435,534	433,386	2,147
Military and Veterans Affairs	146,060	147,252	147,179	73
Natural Resources	94,696	76,809	76,770	39
State	212,358	190,519	189,233	1,287
State Police	525,098	518,364	518,225	138
Technology, Management and Budget	785,149	935,516	911,247	24,269
Transportation	-	500	500	-
Treasury	1,562,266	3,321,714	3,294,985	26,729
Intrafund expenditure reimbursements	-	(899,917)	(899,917)	-
Total Charges to Appropriations	<u>29,195,568</u>	<u>28,844,252</u>	<u>28,726,424</u>	<u>117,828</u>
Reconciling Items:				
Change in noncurrent assets	-	36,935	36,935	-
Net Reconciling Items	-	36,935	36,935	-
Ending Budgetary Fund Balance	<u>\$ 1,408,772</u>	<u>\$ 2,035,655</u>	<u>\$ 2,153,483</u>	<u>\$ 117,828</u>

SCHOOL AID FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 741,860	\$ 741,860	\$ 741,860	\$ -
10,147,699	10,164,144	10,164,144	-
-	-	-	-
-	-	-	-
-	-	-	-
-	24,911	24,911	-
-	-	-	-
858,042	757,074	757,074	-
-	149	149	-
1,653,332	1,818,997	1,818,997	-
-	-	-	-
-	-	-	-
-	1,590	1,590	-
-	-	-	-
-	-	-	-
-	-	-	-
-	100,000	100,000	-
<u>12,659,073</u>	<u>12,866,865</u>	<u>12,866,865</u>	<u>-</u>
<u>13,400,933</u>	<u>13,608,725</u>	<u>13,608,725</u>	<u>-</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
395,900	459,649	459,649	-
-	-	-	-
12,659,073	12,778,202	12,700,648	77,554
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	15,213	15,213	-
-	-	-	-
<u>13,054,973</u>	<u>13,253,064</u>	<u>13,175,510</u>	<u>77,554</u>
-	(7,301)	(7,301)	-
-	(7,301)	(7,301)	-
<u>\$ 345,960</u>	<u>\$ 348,360</u>	<u>\$ 425,914</u>	<u>\$ 77,554</u>

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION
 SEPTEMBER 30, 2012
 (In Thousands)

	GENERAL FUND	SCHOOL AID FUND
	<u> </u>	<u> </u>
Sources/inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 30,842,972	\$ 13,608,725
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.	(1,354,522)	(741,860)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(2,848)	-
Bonds issued are inflows of budgetary resources but are not revenues for financial reporting purposes.	(270,001)	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(234,108)	(857,074)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 28,981,493</u>	<u>\$ 12,009,791</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 28,726,424	\$ 13,175,510
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.	(5,926)	4,804
Discounts on bond issuances are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(950)	-
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(565,563)	(93,575)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	34,567	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 28,188,553</u>	<u>\$ 13,086,739</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 and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2012, 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, 2011, and includes multi-year projects budgetary carry-forwards from the prior fiscal year.

The budgetary fund balance represents total fund balance, net of noncurrent assets and prior year encumbrances. 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) 373-1010.

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board 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 27,437 lane miles of roads and 4,773 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 one inch. Rutting in wheel path may be severe and patching is no longer beneficial to pavement condition.	Extreme deterioration requiring continuous maintenance and warrants resurfacing or total cross-section replacement. Distress items may include severe transverse and longitudinal cracking, joints failing, and the patching is no longer beneficial to pavement condition. Spalling and edge cracking could also be severe.

Established Condition Level

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

Assessed Conditions

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

Rating	2011	2010	2009
Good	81.3%	83.0%	83.0%
Poor	18.7%	17.0%	17.0%

Michigan

Bridges

Measurement Scale

MDOT utilizes the National Bridge Inventory (NBI) 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

A highway bridge is classified as structurally deficient if the deck, superstructure, substructure, or culvert is rated in "poor" condition (0 to 4 on the NBI rating scale). A bridge can also be classified as structurally deficient if its load carrying capacity is significantly below current design standards or if a waterway below frequently overtops the bridge during floods. The following table reports the percentage of bridges whose condition was assessed as "structurally deficient," in the stated year:

Fiscal Year	Structurally Deficient
2012	6.4%
2011	8.0%
2010	9.6%

Bridges that are not intended to carry highway traffic are not included in MDOT's condition assessment. As a result, the number of bridges that were evaluated (4,437) in fiscal year 2012 is less than the total (4,773) 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
2013	\$737.0	\$ -
2012	\$719.0	\$772.5
2011	\$766.0	\$752.8
2010	\$1,162.0	\$829.2
2009	\$1,081.7	\$1,028.7
2008	\$829.0	\$1,003.7

Beginning in fiscal year 2010, certain types of projects were capitalized that had been expensed as maintenance in previous years. Amounts for prior years are not available.





II. FINANCIAL SECTION

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

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 SEPTEMBER 30, 2012
 (In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 9,366	\$ -	\$ 310	\$ -	\$ 9,675
Equity in common cash	791,336	1,396	756,036	253,877	1,802,645
Taxes, interest, and penalties receivable	95,042	-	663	-	95,705
Amounts due from other funds	48,295	-	43,898	-	92,194
Amounts due from component units	-	-	2,103	-	2,103
Amounts due from federal agencies	31,416	-	268,564	-	299,980
Amounts due from local units	2,094	-	54,568	53	56,716
Inventories	463	-	14,959	-	15,422
Investments	-	228,992	24,757	-	253,748
Other current assets	211,265	3	4,029	6,831	222,129
Total Current Assets	<u>1,189,278</u>	<u>230,390</u>	<u>1,169,886</u>	<u>260,762</u>	<u>2,850,317</u>
Taxes, interest, and penalties receivable	2,398	-	-	-	2,398
Amounts due from local units	16,672	-	27,656	-	44,329
Investments	215,002	-	-	726,177	941,179
Other noncurrent assets	5,778	-	355	-	6,133
Total Assets	<u>\$ 1,429,129</u>	<u>\$ 230,390</u>	<u>\$ 1,197,897</u>	<u>\$ 986,939</u>	<u>\$ 3,844,355</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 1,952	\$ -	\$ 3,039	\$ 281	\$ 5,272
Accounts payable and other liabilities	412,283	151	311,316	9,310	733,060
Amounts due to other funds	48,162	-	52,968	100	101,230
Amounts due to component units	30,604	-	-	-	30,604
Bonds and notes payable	-	-	131,180	-	131,180
Interest payable	-	-	2	-	2
Deferred revenue	176,022	-	8,515	-	184,537
Total Current Liabilities	<u>669,023</u>	<u>151</u>	<u>507,020</u>	<u>9,692</u>	<u>1,185,885</u>
Long-Term Liabilities:					
Deferred revenue	7,681	-	396	-	8,077
Total Liabilities	<u>676,704</u>	<u>151</u>	<u>507,415</u>	<u>9,692</u>	<u>1,193,961</u>
Fund Balances:					
Nonspendable	213,300	-	14,971	723,182	951,453
Restricted	342,194	230,239	820,314	254,065	1,646,813
Committed	196,931	-	-	-	196,931
Unassigned	-	-	(144,804)	-	(144,804)
Total Fund Balances	<u>752,425</u>	<u>230,239</u>	<u>690,482</u>	<u>977,247</u>	<u>2,650,394</u>
Total Liabilities and Fund Balances	<u>\$ 1,429,129</u>	<u>\$ 230,390</u>	<u>\$ 1,197,897</u>	<u>\$ 986,939</u>	<u>\$ 3,844,355</u>

Michigan

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

REVENUES	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
Taxes	\$ 1,920,315	\$ -	\$ 5,027	\$ -	\$ 1,925,342
From federal agencies	218,494	-	1,217,443	-	1,435,937
From local agencies	-	-	17,382	-	17,382
From services	3,580	-	3,785	-	7,364
From licenses and permits	162,052	-	17,922	-	179,974
Miscellaneous	844,628	752	56,752	122,380	1,024,513
Total Revenues	3,149,070	752	1,318,310	122,380	4,590,511
EXPENDITURES					
Current:					
General government	331,030	476	252	1,291	333,049
Education	-	1,578	94,724	-	96,303
Human services	32,721	-	-	-	32,721
Public safety and corrections	779	-	-	2,583	3,362
Conservation, environment, recreation, and agriculture	210,174	-	-	19,645	229,820
Labor, commerce, and regulatory	509,771	-	-	-	509,771
Health services	86,745	-	-	-	86,745
Transportation	1,180,115	437	968,576	-	2,149,128
Capital outlay	7,181	-	974,149	44,146	1,025,476
Debt Service:					
Bond principal retirement	-	342,241	-	-	342,241
Bond interest and fiscal charges	-	346,861	-	-	346,861
Capital lease payments	576	-	460	-	1,035
Total Expenditures	2,359,091	691,594	2,038,161	67,665	5,156,511
Excess of Revenues over (under) Expenditures	789,979	(690,842)	(719,851)	54,715	(566,000)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	90,980	-	90,980
Refunding bonds issued	-	162,537	-	-	162,537
Premium on bond issuance	-	11,274	10,574	-	21,848
Discount on bond issuance	-	(389)	-	-	(389)
Payment to refunded bond escrow agent	-	(172,223)	-	-	(172,223)
Proceeds from sale of capital assets	-	-	274	38	312
Transfers from other funds	323,945	709,315	832,193	-	1,865,453
Transfers to other funds	(1,011,009)	-	(282,360)	(140)	(1,293,508)
Total Other Financing Sources (Uses)	(687,064)	710,514	651,662	(102)	675,009
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	102,914	19,672	(68,190)	54,613	109,009
Fund Balances - Beginning of fiscal year	649,510	210,568	758,672	922,635	2,541,385
Fund Balances - End of fiscal year	<u>\$ 752,425</u>	<u>\$ 230,239</u>	<u>\$ 690,482</u>	<u>\$ 977,247</u>	<u>\$ 2,650,394</u>

Michigan

BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 2012
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 14	\$ 208	\$ 6	\$ 9,138	\$ 9,366
Equity in common cash	207,694	170,362	66,737	346,544	791,336
Taxes, interest, and penalties receivable	94,868	174	-	-	95,042
Amounts due from other funds	19,224	-	29,071	-	48,295
Amounts due from federal agencies	21,996	4,943	4,478	-	31,416
Amounts due from local units	882	1,213	-	-	2,094
Inventories	-	463	-	-	463
Other current assets	120	7,206	34,977	168,963	211,265
Total Current Assets	<u>344,797</u>	<u>184,569</u>	<u>135,268</u>	<u>524,644</u>	<u>1,189,278</u>
Taxes, interest, and penalties receivable	2,398	1	-	-	2,398
Amounts due from local units	1,864	14,808	-	-	16,672
Investments	-	190,987	-	24,015	215,002
Other noncurrent assets	514	1,218	-	4,046	5,778
Total Assets	<u>\$ 349,573</u>	<u>\$ 391,583</u>	<u>\$ 135,268</u>	<u>\$ 552,705</u>	<u>\$ 1,429,129</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 1,124	\$ 183	\$ 618	\$ 26	\$ 1,952
Accounts payable and other liabilities	221,130	13,382	17,794	159,976	412,283
Amounts due to other funds	18,144	976	29,017	25	48,162
Amounts due to component units	-	-	30,604	-	30,604
Deferred revenue	7,170	1,266	10,117	157,470	176,022
Total Current Liabilities	<u>247,569</u>	<u>15,807</u>	<u>88,149</u>	<u>317,497</u>	<u>669,023</u>
Long-Term Liabilities:					
Deferred revenue	3,081	1,219	-	3,381	7,681
Total Liabilities	<u>250,650</u>	<u>17,026</u>	<u>88,149</u>	<u>320,878</u>	<u>676,704</u>
Fund Balances:					
Nonspendable	-	189,512	110	23,678	213,300
Restricted	98,923	185,044	44,646	13,581	342,194
Committed	-	-	2,363	194,568	196,931
Total Fund Balances	<u>98,923</u>	<u>374,556</u>	<u>47,119</u>	<u>231,827</u>	<u>752,425</u>
Total Liabilities and Fund Balances	<u>\$ 349,573</u>	<u>\$ 391,583</u>	<u>\$ 135,268</u>	<u>\$ 552,705</u>	<u>\$ 1,429,129</u>

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 1,920,095	\$ 220	\$ -	\$ -	\$ 1,920,315
From federal agencies	55,780	7,945	153,925	844	218,494
From services	3,579	-	1	-	3,580
From licenses and permits	31,842	121,496	8,715	-	162,052
Miscellaneous	1,655	87,890	322,586	432,498	844,628
Total Revenues	<u>2,012,950</u>	<u>217,552</u>	<u>485,227</u>	<u>433,341</u>	<u>3,149,070</u>
EXPENDITURES					
Current:					
General government	-	1,936	21,855	307,239	331,030
Human services	-	-	-	32,721	32,721
Public safety and corrections	-	-	-	779	779
Conservation, environment, recreation, and agriculture	-	210,174	-	-	210,174
Labor, commerce, and regulatory	-	-	493,642	16,128	509,771
Health services	-	-	-	86,745	86,745
Transportation	1,180,115	-	-	-	1,180,115
Capital outlay	-	7,181	-	-	7,181
Debt Service:					
Capital lease payments	-	-	576	-	576
Total Expenditures	<u>1,180,115</u>	<u>219,291</u>	<u>516,073</u>	<u>443,612</u>	<u>2,359,091</u>
Excess of Revenues over (under) Expenditures	<u>832,835</u>	<u>(1,739)</u>	<u>(30,847)</u>	<u>(10,271)</u>	<u>789,979</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	159,486	42,839	46,620	75,000	323,945
Transfers to other funds	(971,669)	(23,473)	(15,721)	(146)	(1,011,009)
Total Other Financing Sources (Uses)	<u>(812,184)</u>	<u>19,366</u>	<u>30,899</u>	<u>74,854</u>	<u>(687,064)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	20,651	17,627	53	64,584	102,914
Fund Balances - Beginning of fiscal year	<u>78,272</u>	<u>356,929</u>	<u>47,066</u>	<u>167,243</u>	<u>649,510</u>
Fund Balances - End of fiscal year	<u>\$ 98,923</u>	<u>\$ 374,556</u>	<u>\$ 47,119</u>	<u>\$ 231,827</u>	<u>\$ 752,425</u>

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

<u>Statutory/Budgetary Basis</u>	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,920,095	\$ 1,920,095	\$ -	\$ 220	\$ 220	\$ -
From federal agencies	55,780	55,780	-	7,708	7,708	-
From services	3,579	3,579	-	-	-	-
From licenses and permits	31,842	31,842	-	121,496	121,496	-
Miscellaneous	1,655	1,655	-	35,217	35,217	-
Transfers in	159,486	159,486	-	36,758	36,758	-
Total Revenues and Other Sources	2,172,436	2,172,436	-	201,400	201,400	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Licensing and Regulatory Affairs	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
State Police	-	-	-	-	-	-
Natural Resources	-	-	-	223,410	209,422	13,988
Transportation	2,215,321	2,204,279	11,043	-	-	-
Treasury	-	-	-	1,895	1,895	-
Total Expenditures, Transfers Out, and Encumbrances	2,215,321	2,204,279	11,043	225,304	211,316	13,988
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (42,886)	(31,843)	\$ 11,043	\$ (23,904)	(9,916)	\$ 13,988
Reconciling Items:						
Encumbrances at September 30		52,494			9,845	
Funds not annually budgeted		-			17,698	
Net Reconciling Items		52,494			27,543	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		20,651			17,627	
FUND BALANCES (GAAP BASIS)						
Beginning balances		78,272			356,929	
Ending balances (GAAP Basis)		\$ 98,923			\$ 374,556	

Michigan

REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,920,315	\$ 1,920,315	\$ -
153,925	153,925	-	844	844	-	218,257	218,257	-
1	1	-	-	-	-	3,580	3,580	-
8,715	8,715	-	-	-	-	162,052	162,052	-
44,295	44,295	-	198,358	198,358	-	279,525	279,525	-
46,620	46,620	-	75,000	75,000	-	317,864	317,864	-
<u>253,556</u>	<u>253,556</u>	<u>-</u>	<u>274,202</u>	<u>274,202</u>	<u>-</u>	<u>2,901,593</u>	<u>2,901,593</u>	<u>-</u>
-	-	-	930	930	-	930	930	-
-	-	-	86,745	86,745	-	86,745	86,745	-
-	-	-	33,833	32,744	1,090	33,833	32,744	1,090
225,419	218,822	6,597	-	-	-	225,419	218,822	6,597
-	-	-	1,001	108	894	1,001	108	894
-	-	-	682	682	-	682	682	-
-	-	-	-	-	-	223,410	209,422	13,988
-	-	-	-	-	-	2,215,321	2,204,279	11,043
34,895	34,895	-	286,817	92,923	193,894	323,606	129,712	193,894
<u>260,314</u>	<u>253,717</u>	<u>6,597</u>	<u>410,007</u>	<u>214,130</u>	<u>195,877</u>	<u>3,110,947</u>	<u>2,883,442</u>	<u>227,504</u>
<u>\$ (6,758)</u>	<u>(161)</u>	<u>\$ 6,597</u>	<u>\$ (135,805)</u>	<u>60,072</u>	<u>\$ 195,877</u>	<u>\$ (209,353)</u>	<u>18,151</u>	<u>\$ 227,504</u>
	4			382			62,725	
	<u>210</u>			<u>4,130</u>			<u>22,038</u>	
	<u>214</u>			<u>4,512</u>			<u>84,763</u>	
	<u>53</u>			<u>64,584</u>			<u>102,914</u>	
	<u>47,066</u>			<u>167,243</u>			<u>649,510</u>	
	<u>\$ 47,119</u>			<u>\$ 231,827</u>			<u>\$ 752,425</u>	



SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

MICHIGAN TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660, this fund accounts for the receipt and distribution of several tax revenues dedicated for highway purposes. Transfers are made to the General Fund, State Trunkline Fund, and the Comprehensive Transportation Fund. Expenditures include grants to counties, cities, and villages for highway purposes.

COMPREHENSIVE TRANSPORTATION FUND

Established pursuant to Michigan Compiled Laws Section 247.660, this fund accounts for the planning and development of public transportation systems within the State. Federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures.

Michigan

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 SEPTEMBER 30, 2012
 (In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ -	\$ 14	\$ 14
Equity in common cash	118,018	89,675	207,694
Taxes, interest, and penalties receivable	94,868	-	94,868
Amounts due from other funds	-	19,224	19,224
Amounts due from federal agencies	-	21,996	21,996
Amounts due from local units	-	882	882
Other current assets	4	115	120
Total Current Assets	<u>212,890</u>	<u>131,907</u>	<u>344,797</u>
Taxes, interest, and penalties receivable	2,398	-	2,398
Amounts due from local units	-	1,864	1,864
Other noncurrent assets	-	514	514
Total Assets	<u>\$ 215,288</u>	<u>\$ 134,285</u>	<u>\$ 349,573</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ 926	\$ 198	\$ 1,124
Accounts payable and other liabilities	187,490	33,640	221,130
Amounts due to other funds	18,096	48	18,144
Deferred revenue	6,378	792	7,170
Total Current Liabilities	<u>212,890</u>	<u>34,678</u>	<u>247,569</u>
Long-Term Liabilities:			
Deferred revenue	2,398	684	3,081
Total Liabilities	<u>215,288</u>	<u>35,362</u>	<u>250,650</u>
Fund Balances:			
Restricted	-	98,923	98,923
Total Fund Balances	<u>-</u>	<u>98,923</u>	<u>98,923</u>
Total Liabilities and Fund Balances	<u>\$ 215,288</u>	<u>\$ 134,285</u>	<u>\$ 349,573</u>

Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 2012
 (In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 1,821,994	\$ 98,101	\$ 1,920,095
From federal agencies	-	55,780	55,780
From services	3,579	-	3,579
From licenses and permits	31,397	445	31,842
Miscellaneous	661	994	1,655
	<u>1,857,630</u>	<u>155,320</u>	<u>2,012,950</u>
Total Revenues			
EXPENDITURES			
Current:			
Transportation	906,540	273,575	1,180,115
	<u>906,540</u>	<u>273,575</u>	<u>1,180,115</u>
Total Expenditures			
Excess of Revenues over (under)			
Expenditures	951,090	(118,255)	832,835
	<u>951,090</u>	<u>(118,255)</u>	<u>832,835</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	530	158,956	159,486
Transfers to other funds	(951,620)	(20,049)	(971,669)
	<u>(951,090)</u>	<u>138,906</u>	<u>(812,184)</u>
Total Other Financing Sources (Uses)			
Excess of Revenues and Other			
Sources over (under) Expenditures			
and Other Uses	-	20,651	20,651
	<u>-</u>	<u>20,651</u>	<u>20,651</u>
Fund Balances - Beginning of fiscal year	-	78,272	78,272
	<u>-</u>	<u>78,272</u>	<u>78,272</u>
Fund Balances - End of fiscal year	\$ -	\$ 98,923	\$ 98,923
	<u>\$ -</u>	<u>\$ 98,923</u>	<u>\$ 98,923</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>MICHIGAN TRANSPORTATION FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 1,821,994	\$ 1,821,994	\$ -
From federal agencies	-	-	-
From services	3,579	3,579	-
From licenses and permits	31,397	31,397	-
Miscellaneous	661	661	-
Transfers in	530	530	-
	<u>1,858,160</u>	<u>1,858,160</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>1,864,487</u>	<u>1,858,160</u>	<u>6,327</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>1,864,487</u>	<u>1,858,160</u>	<u>6,327</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,327)</u>	<u>-</u>	<u>\$ 6,327</u>
Reconciling Items:			
Encumbrances at September 30		<u>-</u>	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>-</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>-</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>	

Michigan

COMPREHENSIVE TRANSPORTATION FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 98,101	\$ 98,101	\$ -	\$ 1,920,095	\$ 1,920,095	\$ -
55,780	55,780	-	55,780	55,780	-
-	-	-	3,579	3,579	-
445	445	-	31,842	31,842	-
994	994	-	1,655	1,655	-
<u>158,956</u>	<u>158,956</u>	<u>-</u>	<u>159,486</u>	<u>159,486</u>	<u>-</u>
<u>314,275</u>	<u>314,275</u>	<u>-</u>	<u>2,172,436</u>	<u>2,172,436</u>	<u>-</u>
<u>350,834</u>	<u>346,118</u>	<u>4,716</u>	<u>2,215,321</u>	<u>2,204,279</u>	<u>11,043</u>
<u>350,834</u>	<u>346,118</u>	<u>4,716</u>	<u>2,215,321</u>	<u>2,204,279</u>	<u>11,043</u>
<u>\$ (36,559)</u>	<u>(31,843)</u>	<u>\$ 4,716</u>	<u>\$ (42,886)</u>	<u>(31,843)</u>	<u>\$ 11,043</u>
	<u>52,494</u>			<u>52,494</u>	
	<u>52,494</u>			<u>52,494</u>	
	<u>20,651</u>			<u>20,651</u>	
	<u>78,272</u>			<u>78,272</u>	
	<u>\$ 98,923</u>			<u>\$ 98,923</u>	



SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

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

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

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

MICHIGAN GAME AND FISH PROTECTION TRUST FUND

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

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

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND

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

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

FOREST DEVELOPMENT FUND

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

BOTTLE DEPOSITS FUND

Michigan Compiled Laws (MCL) Section 445.573c created the Bottle Deposits Fund to provide for the disposition of unredeemed bottle deposits. The Department of Treasury and the Department of Environmental Quality (DEQ) jointly administer the fund. The law mandates that an annual distribution of the funds be made as follows: 25% returned to the dealers and 75% to fund several sub-funds.

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

MCL Section 324.20108 moved the former Environmental Response Fund (ERF) to a sub-fund of the CRF. The law mandates that proceeds of all cost recovery actions taken and settlements entered into pursuant to the ERF (excluding natural resource damages) by DEQ or the Attorney General, or both, shall be credited to the ERF.

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

Michigan

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 2012
 (In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
ASSETS		
Current Assets:		
Cash	\$ 208	\$ -
Equity in common cash	69,937	24,929
Taxes, interest, and penalties receivable	174	-
Amounts due from federal agencies	4,943	-
Amounts due from local units	-	-
Inventories	463	-
Other current assets	4,175	1,159
Total Current Assets	79,900	26,089
Taxes, interest, and penalties receivable	1	-
Amounts due from local units	-	-
Investments	1,521	183,315
Other noncurrent assets	-	-
Total Assets	\$ 81,422	\$ 209,404
LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Warrants outstanding	\$ 115	\$ -
Accounts payable and other liabilities	10,028	19
Amounts due to other funds	701	-
Deferred revenue	1,047	-
Total Current Liabilities	11,892	19
Long-Term Liabilities:		
Deferred revenue	1	-
Total Liabilities	11,893	19
Fund Balances:		
Nonspendable	-	180,582
Restricted	69,529	28,802
Total Fund Balances	69,529	209,385
Total Liabilities and Fund Balances	\$ 81,422	\$ 209,404

Michigan

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ 1	\$ -	\$ 208
805	6,907	67,783	170,362
-	-	-	174
-	-	-	4,943
-	-	1,213	1,213
-	-	-	463
63	101	1,707	7,206
<u>868</u>	<u>7,009</u>	<u>70,703</u>	<u>184,569</u>
-	-	-	1
-	-	14,808	14,808
6,151	-	-	190,987
-	-	1,218	1,218
<u>\$ 7,018</u>	<u>\$ 7,009</u>	<u>\$ 86,729</u>	<u>\$ 391,583</u>
\$ -	\$ 20	\$ 48	\$ 183
29	2,404	902	13,382
3	168	104	976
-	-	219	1,266
<u>32</u>	<u>2,592</u>	<u>1,273</u>	<u>15,807</u>
-	-	1,218	1,219
<u>32</u>	<u>2,592</u>	<u>2,491</u>	<u>17,026</u>
6,000	-	2,930	189,512
986	4,417	81,308	185,044
<u>6,986</u>	<u>4,417</u>	<u>84,239</u>	<u>374,556</u>
<u>\$ 7,018</u>	<u>\$ 7,009</u>	<u>\$ 86,729</u>	<u>\$ 391,583</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, 2012
 (In Thousands)

	<u>MICHIGAN CONSERVATION AND RECREATION LEGACY FUND</u>	<u>MICHIGAN GAME AND FISH PROTECTION TRUST FUND</u>
REVENUES		
Taxes	\$ 220	\$ -
From federal agencies	7,341	-
From licenses and permits	121,495	-
Miscellaneous	5,627	32,093
	<u>134,683</u>	<u>32,093</u>
Total Revenues	134,683	32,093
EXPENDITURES		
Current:		
General government	1,894	41
Conservation, environment, recreation, and agriculture	154,245	86
Capital outlay	7,134	-
	<u>163,274</u>	<u>127</u>
Total Expenditures	163,274	127
Excess of Revenues over (under) Expenditures	<u>(28,591)</u>	<u>31,965</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	35,804	-
Transfers to other funds	(2,682)	(17,059)
	<u>33,122</u>	<u>(17,059)</u>
Total Other Financing Sources (Uses)	33,122	(17,059)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	4,531	14,907
Fund Balances - Beginning of fiscal year	<u>64,999</u>	<u>194,478</u>
Fund Balances - End of fiscal year	<u>\$ 69,529</u>	<u>\$ 209,385</u>

Michigan

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 220
-	367	237	7,945
-	1	-	121,496
713	28,878	20,580	87,890
713	29,246	20,818	217,552
-	-	-	1,936
591	34,489	20,763	210,174
-	47	-	7,181
591	34,536	20,763	219,291
121	(5,290)	55	(1,739)
-	955	6,080	42,839
(5)	(383)	(3,344)	(23,473)
(5)	572	2,736	19,366
116	(4,718)	2,791	17,627
6,870	9,135	81,447	356,929
<u>\$ 6,986</u>	<u>\$ 4,417</u>	<u>\$ 84,239</u>	<u>\$ 374,556</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, 2012
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND			MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 220	\$ 220	\$ -	\$ -	\$ -	\$ -
From federal agencies	7,341	7,341	-	-	-	-
From licenses and permits	121,495	121,495	-	-	-	-
Miscellaneous	5,627	5,627	-	713	713	-
Transfers in	35,804	35,804	-	-	-	-
Total Revenues and Other Sources	<u>170,487</u>	<u>170,487</u>	<u>-</u>	<u>713</u>	<u>713</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	184,007	173,528	10,480	784	618	166
Treasury	1,894	1,894	0	-	-	-
Total Expenditures, Transfers Out and Encumbrances	<u>185,902</u>	<u>175,422</u>	<u>10,480</u>	<u>784</u>	<u>618</u>	<u>166</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (15,415)</u>	<u>(4,935)</u>	<u>\$ 10,480</u>	<u>\$ (71)</u>	<u>94</u>	<u>\$ 166</u>
Reconciling Items:						
Encumbrances at September 30		9,466			22	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>9,466</u>			<u>22</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>4,531</u>			<u>116</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>64,999</u>			<u>6,870</u>	
Ending balances (GAAP Basis)		<u>\$ 69,529</u>			<u>\$ 6,986</u>	

Michigan

FUNDS NOT ANNUALLY BUDGETED

FOREST DEVELOPMENT FUND			MICHIGAN GAME AND FISH PROTECTION TRUST FUND	BOTTLE DEPOSITS FUND	TOTALS		
BUDGET	ACTUAL	VARIANCE	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220	\$ 220	\$ -
367	367	-	-	-	7,708	7,708	-
1	1	-	-	-	121,496	121,496	-
28,878	28,878	-	-	-	35,217	35,217	-
955	955	-	-	-	36,758	36,758	-
<u>30,201</u>	<u>30,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,400</u>	<u>201,400</u>	<u>-</u>
38,618	35,276	3,343	-	-	223,410	209,422	13,988
-	-	-	-	-	1,895	1,895	-
<u>38,618</u>	<u>35,276</u>	<u>3,343</u>	<u>-</u>	<u>-</u>	<u>225,304</u>	<u>211,316</u>	<u>13,988</u>
<u>\$ (8,418)</u>	<u>(5,075)</u>	<u>\$ 3,343</u>	<u>-</u>	<u>-</u>	<u>\$ (23,904)</u>	<u>(9,916)</u>	<u>\$ 13,988</u>
	357		-	-		9,845	
	-		14,907	2,791		17,698	
	<u>357</u>		<u>14,907</u>	<u>2,791</u>		<u>27,543</u>	
	<u>(4,718)</u>		<u>14,907</u>	<u>2,791</u>		<u>17,627</u>	
	<u>9,135</u>		<u>194,478</u>	<u>81,447</u>		<u>356,929</u>	
<u>\$ 4,417</u>			<u>\$ 209,385</u>	<u>\$ 84,239</u>		<u>\$ 374,556</u>	



SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

Michigan Compiled Laws (MCL) Section 570.1201 created the Homeowner Construction Lien Recovery Fund to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. MCL 570.1201 was repealed effective August 23, 2010 and as of September 30, 2012, final disposition of the remaining fund balance had not occurred as a result of pending litigation.

MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

Michigan Compiled Laws Section 421.10 created this fund to account for administrative costs of the Unemployment Insurance Agency, which is administered by the Department of Licensing and Regulatory Affairs. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (reported as part of the Michigan Unemployment Compensation Funds, an enterprise fund). Expenditures for administration are subject to legislative appropriation.

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

SAFETY EDUCATION AND TRAINING FUND

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

SECOND INJURY FUND

Michigan Compiled Laws Section 418.501, created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The administrator, appointed by the fund's Board of Trustees, supervises the fund. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers licensed or authorized in Michigan.

SELF-INSURERS' SECURITY FUND

Established by Michigan Compiled Laws Section 418.501, the Self-Insurers' Security Fund pays workers' compensation benefits to injured employees of insolvent, private self-insured employers. Revenues are generated through annual assessments of insurance carriers.

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

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND

Established by Michigan Compiled Laws Section 418.501, the Silicosis, Dust Disease, and Logging Industry Compensation Fund reimburses insurance carriers who pay benefits to employees injured from certain dust diseases, and employees who have sustained personal injury or death while being employed in the logging industry. Revenues are generated through annual assessments of insurance carriers.

STATE CONSTRUCTION CODE FUND

Michigan Compiled Laws Section 125.1522 created the State Construction Code Fund. Fees received for building permit applications and other funds collected under this legislation are appropriated by the Legislature for the operation of the Department of Licensing and Regulatory Affairs' Bureau of Construction Codes and related indirect overhead expenditures.

UTILITY CONSUMER REPRESENTATION FUND

Established by Michigan Compiled Laws Section 460.6m, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. Revenues are generated through annual assessments of regulated utility companies.

UNEMPLOYMENT OBLIGATION TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 421.10a to facilitate the repayment of debt incurred through a bond issuance authorized under the Employment Security Financing Act, MCL 12.271 et seq. and MCL 421.26a. This debt was issued in order to repay advances received from the Federal Government that were provided to temporarily assist Michigan with unemployment payments that exceeded current revenue collections. Revenues within the Obligation Trust Fund are generated from annual assessments on employers. Payments are made to the Michigan Finance Authority who currently holds the bonds and makes regular payments to the bond holders.

STATE CASINO GAMING FUND

Created by Michigan Compiled Laws (MCL) Section 432.212, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan. The five-member gaming control board created under MCL 432.204 is vested with the authority for licensing, regulating, and controlling casino gaming operations.

Michigan

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
SEPTEMBER 30, 2012
(In Thousands)**

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in common cash	105	-	7,723	13,507	25,016
Amounts due from other funds	-	28,583	-	-	-
Amounts due from federal agencies	-	4,478	-	-	-
Other current assets	-	-	-	371	1,240
Total Current Assets	<u>105</u>	<u>33,060</u>	<u>7,723</u>	<u>13,878</u>	<u>26,256</u>
Total Assets	<u>\$ 105</u>	<u>\$ 33,060</u>	<u>\$ 7,723</u>	<u>\$ 13,878</u>	<u>\$ 26,256</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ -	\$ 18	\$ 5	\$ 395	\$ 65
Accounts payable and and other liabilities	-	4,218	386	1,557	10,323
Amounts due to other funds	-	28,825	45	10	5
Amounts due to component units	-	-	-	-	-
Deferred revenue	-	-	-	2,726	1,905
Total Current Liabilities	<u>-</u>	<u>33,060</u>	<u>436</u>	<u>4,688</u>	<u>12,299</u>
Total Liabilities	<u>-</u>	<u>33,060</u>	<u>436</u>	<u>4,688</u>	<u>12,299</u>
Fund Balances:					
Nonspendable	-	-	-	96	14
Restricted	105	-	7,287	9,094	13,944
Committed	-	-	-	-	-
Total Fund Balances	<u>105</u>	<u>-</u>	<u>7,287</u>	<u>9,190</u>	<u>13,958</u>
Total Liabilities and Fund Balances	<u>\$ 105</u>	<u>\$ 33,060</u>	<u>\$ 7,723</u>	<u>\$ 13,878</u>	<u>\$ 26,256</u>

Michigan

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 6
1,794	1,429	3,023	2,090	12,051	66,737
-	-	-	488	-	29,071
-	-	-	-	-	4,478
64	74	-	33,180	48	34,977
<u>1,858</u>	<u>1,503</u>	<u>3,023</u>	<u>35,758</u>	<u>12,104</u>	<u>135,268</u>
<u>\$ 1,858</u>	<u>\$ 1,503</u>	<u>\$ 3,023</u>	<u>\$ 35,758</u>	<u>\$ 12,104</u>	<u>\$ 135,268</u>
\$ 112	\$ 3	\$ 20	\$ -	\$ -	\$ 618
501	191	199	-	418	17,794
2	46	3	-	82	29,017
-	-	-	30,604	-	30,604
276	-	-	5,155	54	10,117
<u>892</u>	<u>240</u>	<u>222</u>	<u>35,758</u>	<u>555</u>	<u>88,149</u>
<u>892</u>	<u>240</u>	<u>222</u>	<u>35,758</u>	<u>555</u>	<u>88,149</u>
-	-	-	-	-	110
966	1,263	2,801	-	9,186	44,646
-	-	-	-	2,363	2,363
<u>966</u>	<u>1,263</u>	<u>2,801</u>	<u>-</u>	<u>11,549</u>	<u>47,119</u>
<u>\$ 1,858</u>	<u>\$ 1,503</u>	<u>\$ 3,023</u>	<u>\$ 35,758</u>	<u>\$ 12,104</u>	<u>\$ 135,268</u>

Michigan

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

SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
REVENUES					
From federal agencies	\$ -	\$ 153,925	\$ -	\$ -	\$ -
From services	-	-	-	-	-
From licenses and permits	-	-	-	-	-
Miscellaneous	49	133	10,306	12,307	8,101
	<u>49</u>	<u>133</u>	<u>10,306</u>	<u>12,307</u>	<u>8,101</u>
Total Revenues	49	154,058	10,306	12,307	8,101
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Labor, commerce, and regulatory	-	196,605	9,949	13,119	6,204
Debt Service:					
Capital lease payments	-	576	-	-	-
	<u>-</u>	<u>576</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	-	197,181	9,949	13,119	6,204
Excess of Revenues over (under) Expenditures	<u>49</u>	<u>(43,122)</u>	<u>357</u>	<u>(812)</u>	<u>1,897</u>
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	44,911	-	-	-
Transfers to other funds	-	(1,789)	(90)	(18)	(10)
	<u>-</u>	<u>(1,789)</u>	<u>(90)</u>	<u>(18)</u>	<u>(10)</u>
Total Other Financing Sources (Uses)	-	43,122	(90)	(18)	(10)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	49	-	267	(830)	1,887
Fund Balances - Beginning of fiscal year	<u>56</u>	<u>-</u>	<u>7,020</u>	<u>10,020</u>	<u>12,071</u>
Fund Balances - End of fiscal year	<u>\$ 105</u>	<u>\$ -</u>	<u>\$ 7,287</u>	<u>\$ 9,190</u>	<u>\$ 13,958</u>

Michigan

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,925
-	-	-	-	1	1
-	7,561	-	-	1,154	8,715
<u>1,157</u>	<u>3</u>	<u>1,180</u>	<u>255,547</u>	<u>33,804</u>	<u>322,586</u>
<u>1,157</u>	<u>7,564</u>	<u>1,180</u>	<u>255,547</u>	<u>34,959</u>	<u>485,227</u>
-	-	645	-	21,210	21,855
1,642	9,692	884	255,547	-	493,642
-	-	-	-	-	576
<u>1,642</u>	<u>9,692</u>	<u>1,529</u>	<u>255,547</u>	<u>21,210</u>	<u>516,073</u>
<u>(485)</u>	<u>(2,128)</u>	<u>(350)</u>	<u>-</u>	<u>13,749</u>	<u>(30,847)</u>
-	-	-	-	1,709	46,620
<u>(9)</u>	<u>(119)</u>	<u>(3)</u>	<u>-</u>	<u>(13,684)</u>	<u>(15,721)</u>
<u>(9)</u>	<u>(119)</u>	<u>(3)</u>	<u>-</u>	<u>(11,975)</u>	<u>30,899</u>
(494)	(2,247)	(353)	-	1,774	53
<u>1,460</u>	<u>3,510</u>	<u>3,154</u>	<u>-</u>	<u>9,775</u>	<u>47,066</u>
<u>\$ 966</u>	<u>\$ 1,263</u>	<u>\$ 2,801</u>	<u>\$ -</u>	<u>\$ 11,549</u>	<u>\$ 47,119</u>

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)**

<u>Statutory/Budgetary Basis</u>	<u>HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND</u>			<u>MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ 153,925	\$ 153,925	\$ -
From services	-	-	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	49	49	-	133	133	-
Transfers in	-	-	-	44,911	44,911	-
Total Revenues and Other Sources	<u>49</u>	<u>49</u>	<u>-</u>	<u>198,969</u>	<u>198,969</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Licensing and Regulatory Affairs	-	-	-	198,969	198,969	-
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	<u>-</u>	<u>-</u>	<u>-</u>	<u>198,969</u>	<u>198,969</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 49</u>	<u>49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>-</u>			<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>49</u>			<u>-</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>56</u>			<u>-</u>	
Ending balances (GAAP Basis)		<u>\$ 105</u>			<u>\$ -</u>	

Michigan

SAFETY EDUCATION AND TRAINING FUND			STATE CONSTRUCTION CODE FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	7,561	7,561	-
10,306	10,306	-	3	3	-
-	-	-	-	-	-
<u>10,306</u>	<u>10,306</u>	<u>-</u>	<u>7,564</u>	<u>7,564</u>	<u>-</u>
10,440	10,041	399	16,009	9,812	6,197
-	-	-	-	-	-
<u>10,440</u>	<u>10,041</u>	<u>399</u>	<u>16,009</u>	<u>9,812</u>	<u>6,197</u>
<u>\$ (135)</u>	<u>265</u>	<u>\$ 399</u>	<u>\$ (8,445)</u>	<u>(2,248)</u>	<u>\$ 6,197</u>
	2			1	
	-			-	
	<u>2</u>			<u>1</u>	
	267			(2,247)	
	<u>7,020</u>			<u>3,510</u>	
	<u>\$ 7,287</u>			<u>\$ 1,263</u>	

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

<u>Statutory/Budgetary Basis</u>	STATE CASINO GAMING FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
From services	1	1	-
From licenses and permits	1,154	1,154	-
Miscellaneous	33,804	33,804	-
Transfers in	1,709	1,709	-
Total Revenues and Other Sources	36,668	36,668	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Licensing and Regulatory Affairs	-	-	-
Treasury	34,895	34,895	-
Total Expenditures, Transfers Out, and Encumbrances	34,895	34,895	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 1,774	1,774	\$ -
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)		1,774	
FUND BALANCES (GAAP BASIS)			
Beginning balances		9,775	
Ending balances (GAAP Basis)		\$ 11,549	

Michigan

FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	TOTALS		
					BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,925	\$ 153,925	\$ -
-	-	-	-	-	1	1	-
-	-	-	-	-	8,715	8,715	-
-	-	-	-	-	44,295	44,295	-
-	-	-	-	-	46,620	46,620	-
-	-	-	-	-	253,556	253,556	-
-	-	-	-	-	225,419	218,822	6,597
-	-	-	-	-	34,895	34,895	-
-	-	-	-	-	260,314	253,717	6,597
-	-	-	-	-	<u>\$ (6,758)</u>	<u>(161)</u>	<u>\$ 6,597</u>
-	-	-	-	-	-	4	-
(830)	1,887	(494)	(353)	-	-	210	-
(830)	1,887	(494)	(353)	-	-	214	-
(830)	1,887	(494)	(353)	-	-	53	-
10,020	12,071	1,460	3,154	-	-	47,066	-
<u>\$ 9,190</u>	<u>\$ 13,958</u>	<u>\$ 966</u>	<u>\$ 2,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,119</u>	<u>\$ -</u>



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

21st CENTURY JOBS TRUST FUND

Michigan Compiled Laws 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. Executive Order 2010-2 moved the Authority to the Michigan 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 2016, the fund will also receive a portion of the tobacco settlement revenue received by the State.

MICHIGAN MERIT AWARD TRUST FUND

This fund was created by Michigan Compiled Laws (MCL) Section 12.259 to account for a portion of the revenue from the master settlement agreement between tobacco manufacturers and the State. The settlement reimburses the State for health care costs, which result from the use of tobacco products. The fund also consists of interest and earnings from trust fund investments and donations. Fund expenditures are used for the Michigan Merit Award Scholarship, Michigan Promise Scholarship, and other programs as determined by the Legislature.

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

CHILDREN'S TRUST FUND

Michigan Compiled Laws (MCL) Section 21.171 established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board. The Board was established under MCL Section 722.603 to coordinate and fund activities for the prevention of child abuse and neglect in the State. Not more than one-half the money contributed to the trust fund each year, plus the interest and earnings, excluding unrealized gains and losses, credited to the trust fund during the previous fiscal year are available for disbursement. Money received as gifts or donations to the trust fund shall be available for disbursement upon appropriation. Funds that are not available for disbursement are reported as nonspendable fund balance.

This fund is also used to account for the Foster Care Trust Fund that was established under MCL Section 722.1023 and transferred to the State Child Abuse and Neglect Prevention Board with Executive Order 2010-17. Funds in the Foster Care Trust Fund are not expendable until the balance reaches \$800 thousand.

ASSIGNED CLAIMS FACILITY AND PLAN FUND

Michigan Compiled Laws (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 in the operation of the facility and the plan.

Public Act 204 of 2012 amended several MCLs and in fiscal year 2013 will transfer the functionality of this fund to the Michigan Automobile Insurance Placement Facility.

MILITARY FAMILY RELIEF FUND

Michigan Compiled Laws Section 35.1213 created this fund to provide assistance to families of certain members of the reserve components of the United States armed forces on active duty. A qualified individual or the individual's family shall apply to the Department of Military and Veterans Affairs for a grant from the fund. Funds are received primarily from taxpayer contributions on his or her annual State tax return designating \$1 or more of his or her refund to be credited to this fund.

MISCELLANEOUS SPECIAL REVENUE FUNDS

The miscellaneous special revenue funds column reflects the activities of the following funds: Children's Institute Trust, Special Assessment Deferment, and Intrastate Switched Toll Restructuring.

Michigan

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2012
 (In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	193,558	1,571	847
Other current assets	56,250	100,286	196
Total Current Assets	249,808	101,856	1,043
Investments	-	-	24,015
Other noncurrent assets	-	3,024	-
Total Assets	\$ 249,808	\$ 104,880	\$ 25,058
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ -	\$ 5
Accounts payable and other liabilities	-	926	343
Amounts due to other funds	-	16	4
Deferred revenue	56,250	99,906	5
Total Current Liabilities	56,250	100,847	357
Deferred revenue	-	3,024	-
Total Liabilities	56,250	103,871	357
Fund Balances:			
Nonspendable	-	-	23,678
Restricted	-	-	1,023
Committed	193,558	1,009	-
Total Fund Balances	193,558	1,009	24,700
Total Liabilities and Fund Balances	\$ 249,808	\$ 104,880	\$ 25,058

Michigan

ASSIGNED CLAIMS FACILITY AND PLAN FUND	MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 9,138	\$ -	\$ -	\$ 9,138
138,746	2,412	9,410	346,544
12,126	-	105	168,963
<u>160,010</u>	<u>2,412</u>	<u>9,514</u>	<u>524,644</u>
-	-	-	24,015
<u>-</u>	<u>-</u>	<u>1,022</u>	<u>4,046</u>
<u>\$ 160,010</u>	<u>\$ 2,412</u>	<u>\$ 10,536</u>	<u>\$ 552,705</u>
\$ -	\$ 6	\$ 15	\$ 26
158,698	-	10	159,976
3	-	2	25
1,309	-	-	157,470
<u>160,010</u>	<u>6</u>	<u>26</u>	<u>317,497</u>
-	-	357	3,381
<u>160,010</u>	<u>6</u>	<u>383</u>	<u>320,878</u>
-	-	-	23,678
-	2,406	10,153	13,581
<u>-</u>	<u>-</u>	<u>-</u>	<u>194,568</u>
-	2,406	10,153	231,827
<u>\$ 160,010</u>	<u>\$ 2,412</u>	<u>\$ 10,536</u>	<u>\$ 552,705</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 2012
 (In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
REVENUES			
From federal agencies	\$ -	\$ -	\$ 844
Miscellaneous	75,000	119,718	3,458
Total Revenues	<u>75,000</u>	<u>119,718</u>	<u>4,302</u>
EXPENDITURES			
Current:			
General government	92,253	1,231	-
Human services	-	30,100	2,621
Public safety and corrections	-	673	-
Labor, commerce, and regulatory	-	-	-
Health services	-	86,745	-
Total Expenditures	<u>92,253</u>	<u>118,749</u>	<u>2,621</u>
Excess of Revenues over (under) Expenditures	<u>(17,253)</u>	<u>969</u>	<u>1,682</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	75,000	-	-
Transfers to other funds	-	(16)	(4)
Total Other Financing Sources (Uses)	<u>75,000</u>	<u>(16)</u>	<u>(4)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	57,747	953	1,678
Fund Balances - Beginning of fiscal year	<u>135,811</u>	<u>56</u>	<u>23,023</u>
Fund Balances - End of fiscal year	<u>\$ 193,558</u>	<u>\$ 1,009</u>	<u>\$ 24,700</u>

ASSIGNED CLAIMS FACILITY AND PLAN FUND	MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 844
213,878	182	20,261	432,498
213,878	182	20,261	433,341
213,755	-	-	307,239
-	-	-	32,721
-	106	-	779
-	-	16,128	16,128
-	-	-	86,745
213,755	106	16,128	443,612
123	75	4,133	(10,271)
-	-	-	75,000
(123)	-	(3)	(146)
(123)	-	(3)	74,854
-	75	4,130	64,584
-	2,330	6,023	167,243
\$ -	\$ 2,406	\$ 10,153	\$ 231,827

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

	21ST CENTURY JOBS TRUST FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>Statutory/Budgetary Basis</u>			
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
Miscellaneous	75,000	75,000	-
Transfers in	75,000	75,000	-
Total Revenues and Other Sources	<u>150,000</u>	<u>150,000</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Attorney General	-	-	-
Community Health	-	-	-
Human Services	-	-	-
Military and Veterans Affairs	-	-	-
State Police	-	-	-
Treasury	285,811	92,253	193,558
Total Expenditures, Transfers Out, and Encumbrances	<u>285,811</u>	<u>92,253</u>	<u>193,558</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (135,811)</u>	<u>57,747</u>	<u>\$ 193,558</u>
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		-	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>57,747</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>135,811</u>	
Ending balances (GAAP Basis)		<u>\$ 193,558</u>	

Michigan

MICHIGAN MERIT AWARD TRUST FUND			CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 844	\$ 844	\$ -	\$ -	\$ -	\$ -
119,718	119,718	-	3,458	3,458	-	182	182	-
-	-	-	-	-	-	-	-	-
<u>119,718</u>	<u>119,718</u>	<u>-</u>	<u>4,302</u>	<u>4,302</u>	<u>-</u>	<u>182</u>	<u>182</u>	<u>-</u>
930	930	-	-	-	-	-	-	-
86,745	86,745	-	-	-	-	-	-	-
30,100	30,100	-	3,733	2,644	1,090	-	-	-
-	-	-	-	-	-	1,001	108	894
682	682	-	-	-	-	-	-	-
1,006	670	336	-	-	-	-	-	-
<u>119,462</u>	<u>119,126</u>	<u>336</u>	<u>3,733</u>	<u>2,644</u>	<u>1,090</u>	<u>1,001</u>	<u>108</u>	<u>894</u>
<u>\$ 256</u>	<u>592</u>	<u>\$ 336</u>	<u>\$ 569</u>	<u>1,659</u>	<u>\$ 1,090</u>	<u>\$ (820)</u>	<u>74</u>	<u>\$ 894</u>
	362			19			1	
	-			-			-	
	<u>362</u>			<u>19</u>			<u>1</u>	
	<u>953</u>			<u>1,678</u>			<u>75</u>	
	<u>56</u>			<u>23,023</u>			<u>2,330</u>	
	<u>\$ 1,009</u>			<u>\$ 24,700</u>			<u>\$ 2,406</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, 2012
(In Thousands)

<u>Statutory/Budgetary Basis</u>	FUNDS NOT ANNUALLY BUDGETED		TOTALS		
	ASSIGNED CLAIMS FACILITY AND PLAN FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	BUDGET	ACTUAL	VARIANCE
	ACTUAL	ACTUAL			
REVENUES AND OTHER SOURCES					
From federal agencies	\$ -	\$ -	\$ 844	\$ 844	\$ -
Miscellaneous	-	-	198,358	198,358	-
Transfers in	-	-	75,000	75,000	-
	-	-	274,202	274,202	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY					
Attorney General	-	-	930	930	-
Community Health	-	-	86,745	86,745	-
Human Services	-	-	33,833	32,744	1,090
Military and Veterans Affairs	-	-	1,001	108	894
State Police	-	-	682	682	-
Treasury	-	-	286,817	92,923	193,894
	-	-	410,007	214,130	195,877
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	<u>\$ (135,805)</u>	<u>60,072</u>	<u>\$ 195,877</u>
Reconciling Items:					
Encumbrances at September 30	-	-		382	
Funds not annually budgeted	-	4,130		4,130	
	-	4,130		4,512	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	-	4,130		64,584	
FUND BALANCES (GAAP BASIS)					
Beginning balances	-	6,023		167,243	
Ending balances (GAAP Basis)	<u>\$ -</u>	<u>\$ 10,153</u>		<u>\$ 231,827</u>	

DEBT SERVICE FUNDS

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all State Trunkline Fund (STF) related bond issues allowed for under Michigan Compiled Laws Section 247.661. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in STF. Debt service requirements are funded by annual appropriations in STF.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was administratively established to account for the debt service on all Comprehensive Transportation Fund (CTF) related bond issues allowed for under Michigan Compiled Laws Section 247.660b. The bonds are not general obligations of the State. The bonds are payable solely out of funds restricted for comprehensive transportation purposes by Article 9, Section 9, of the State Constitution and irrevocably pledged by law for deposit in CTF. Debt service requirements are funded by annual appropriations in CTF.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

This fund was established pursuant to Michigan Compiled Laws (MCL) Sections 324.19506, 324.71506, and 324.95102 to service recreation and environmental protection bond issues. This fund also reflects debt service transactions related to State Park Improvement Fund (SPIF) revenue bonds, issued pursuant to MCL Section 324.74106.

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

Included in the restricted fund balance on the balance sheet is a \$300 thousand reserve account required by the State Park Gross Revenue Bonds document for additional security to pay bond principal and interest.

SCHOOL LOAN BOND REDEMPTION FUND

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

STATE BUILDING AUTHORITY

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

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

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2012
 (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	\$ -	\$ -	\$ 1,396
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>-</u>	<u>-</u>	<u>1,396</u>
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,396</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts payable and other liabilities	\$ -	\$ -	\$ 10
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>10</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>10</u>
Fund Balances:			
Restricted	-	-	1,386
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,386</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,396</u>

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ -	\$ 1,396
-	228,992	228,992
-	3	3
-	228,994	230,390
<u>\$ -</u>	<u>\$ 228,994</u>	<u>\$ 230,390</u>
\$ -	\$ 140	\$ 151
-	140	151
-	140	151
-	228,854	230,239
-	228,854	230,239
<u>\$ -</u>	<u>\$ 228,994</u>	<u>\$ 230,390</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(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	\$ 4	\$ -	\$ 1
Total Revenues	4	-	1
EXPENDITURES			
Current:			
General government	-	-	191
Education	-	-	-
Transportation	279	158	-
Debt Service:			
Bond principal retirement	93,977	14,020	84,588
Bond interest and fiscal charges	121,265	9,347	54,833
Total Expenditures	215,521	23,526	139,612
Excess of Revenues over (under) Expenditures	(215,517)	(23,526)	(139,611)
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	49,305	18,470	33,888
Premium on bond issuance	8,679	2,527	68
Discount on bond issuance	-	-	(105)
Payment to refunded bond escrow agent	(57,701)	(20,862)	(33,660)
Transfers from other funds	215,234	23,391	139,438
Total Other Financing Sources (Uses)	215,517	23,526	139,629
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	18
Fund Balances - Beginning of fiscal year	-	-	1,367
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,386

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ 747	\$ 752
<u>-</u>	<u>747</u>	<u>752</u>
285	-	476
-	1,578	1,578
-	-	437
53,452	96,205	342,241
<u>40,428</u>	<u>120,988</u>	<u>346,861</u>
<u>94,165</u>	<u>218,771</u>	<u>691,594</u>
<u>(94,165)</u>	<u>(218,024)</u>	<u>(690,842)</u>
60,874	-	162,537
-	-	11,274
(284)	-	(389)
(60,000)	-	(172,223)
93,575	237,677	709,315
<u>94,165</u>	<u>237,677</u>	<u>710,514</u>
-	19,654	19,672
<u>-</u>	<u>209,200</u>	<u>210,568</u>
<u>\$ -</u>	<u>\$ 228,854</u>	<u>\$ 230,239</u>

CAPITAL PROJECTS FUNDS

STATE TRUNKLINE FUND

Established pursuant to Michigan Compiled Laws Section 247.661, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations.

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.

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.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of State trunkline revenue dedicated bonds. These bonds are used in part to finance the costs of road and bridge construction.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, 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.

COMBINED RECREATION BOND FUND

Established in 1988, this fund operates under Sections 324.19601 – 324.19616, 324.71303, 324.71501 – 324.71514, and 324.74106 – 24.74113 of the Michigan Compiled Laws. The balances in the fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988 as part of a \$140 million bond package for financing State and local public recreation projects and \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the “Clean Michigan Initiative.”

Proceeds from the 1988 bond package were used to construct, expand, and develop recreational facilities at State parks, provide grants and loans to local units of government for recreation projects and to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package were used to improve State parks with the installation or upgrade of drinking water systems or restroom facilities and to provide grants and loans to local units of government for recreation projects.

In fiscal year 2011, the remaining bond balances related to the 1998 bond package used to improve State parks were transferred to the State Park Improvement Account within the Michigan Conservation and Recreation Legacy Fund pursuant to Public Act 50 of 2011, Section 303. A significant portion of the remaining bond balances related to the 1998 bond package used for grants to local units of government were transferred to the Michigan Natural Resources Trust Fund pursuant to Public Act 50 of 2011, Section 302.

STATE BUILDING AUTHORITY

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

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

ADVANCE FINANCING FUNDS

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

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

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

The Site Preparation Economic Development Fund is created through the annual appropriations process to account for expenditures incurred to prepare and sell State owned sites declared as surplus that would provide economic benefit to the area or State. Expenditures are recorded when incurred. Sale proceeds of fund properties are deposited into the fund.

Michigan

**COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2012
(In Thousands)**

	<u>STATE TRUNKLINE FUND</u>	<u>STATE AERONAUTICS FUND</u>	<u>COMBINED STATE TRUNKLINE BOND PROCEEDS FUND</u>	<u>COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND</u>
ASSETS				
Current Assets:				
Cash	\$ 308	\$ 2	\$ -	\$ -
Equity in common cash	606,484	15,304	99,852	34,253
Taxes, interest, and penalties receivable	-	663	-	-
Amounts due from other funds	14,092	-	-	-
Amounts due from component units	2,103	-	-	-
Amounts due from federal agencies	166,949	38,140	20,697	-
Amounts due from local units	12,757	1,779	2,675	-
Inventories	14,959	-	-	-
Investments	-	-	-	-
Other current assets	4,027	3	-	-
Total Current Assets	<u>821,677</u>	<u>55,891</u>	<u>123,225</u>	<u>34,253</u>
Amounts due from local units	27,446	211	-	-
Other noncurrent assets	355	-	-	-
Total Assets	<u>\$ 849,478</u>	<u>\$ 56,101</u>	<u>\$ 123,225</u>	<u>\$ 34,253</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 1,095	\$ 1,541	\$ 124	\$ -
Accounts payable and other liabilities	168,680	32,835	7,050	5,730
Amounts due to other funds	1,907	41	-	-
Bonds and notes payable	-	-	-	-
Interest payable	-	-	-	-
Deferred revenue	8,177	-	338	-
Total Current Liabilities	<u>179,859</u>	<u>34,418</u>	<u>7,511</u>	<u>5,730</u>
Long-Term Liabilities:				
Deferred revenue	396	-	-	-
Total Liabilities	<u>180,255</u>	<u>34,418</u>	<u>7,511</u>	<u>5,730</u>
Fund Balances:				
Nonspendable	14,971	-	-	-
Restricted	654,251	21,684	115,714	28,523
Unassigned	-	-	-	-
Total Fund Balances	<u>669,223</u>	<u>21,684</u>	<u>115,714</u>	<u>28,523</u>
Total Liabilities and Fund Balances	<u>\$ 849,478</u>	<u>\$ 56,101</u>	<u>\$ 123,225</u>	<u>\$ 34,253</u>

Michigan

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 310
-	143	-	-	756,036
-	-	-	-	663
-	-	-	29,807	43,898
-	-	-	-	2,103
42,778	-	-	-	268,564
37,357	-	-	-	54,568
-	-	-	-	14,959
-	-	24,757	-	24,757
-	-	-	-	4,029
80,134	143	24,757	29,807	1,169,886
-	-	-	-	27,656
-	-	-	-	355
\$ 80,134	\$ 143	\$ 24,757	\$ 29,807	\$ 1,197,897
\$ 279	\$ -	\$ -	\$ -	\$ 3,039
64,635	-	22	32,363	311,316
15,220	-	29,807	5,993	52,968
-	-	131,180	-	131,180
-	-	2	-	2
-	-	-	-	8,515
80,134	-	161,011	38,356	507,020
-	-	-	-	396
80,134	-	161,011	38,356	507,415
-	-	-	-	14,971
-	143	-	-	820,314
-	-	(136,254)	(8,550)	(144,804)
-	143	(136,254)	(8,550)	690,482
\$ 80,134	\$ 143	\$ 24,757	\$ 29,807	\$ 1,197,897

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
REVENUES				
Taxes	\$ -	\$ 5,027	\$ -	\$ -
From federal agencies	801,264	100,078	70,782	-
From local agencies	15,082	10	2,290	-
From services	3,205	580	-	-
From licenses and permits	17,553	369	-	-
Miscellaneous	47,056	5,293	1,080	144
Total Revenues	<u>884,160</u>	<u>111,355</u>	<u>74,151</u>	<u>144</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Education	-	-	-	-
Transportation	581,464	115,047	1,683	22,508
Capital outlay	908,853	442	58,884	65
Debt service:				
Capital lease payments	460	-	-	-
Total Expenditures	<u>1,490,776</u>	<u>115,489</u>	<u>60,566</u>	<u>22,573</u>
Excess of Revenues over (under) Expenditures	<u>(606,616)</u>	<u>(4,134)</u>	<u>13,585</u>	<u>(22,429)</u>
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	-	-	90,980	-
Premium on bond issuance	-	-	10,574	-
Proceeds from sale of capital assets	274	-	-	-
Transfers from other funds	816,560	6,339	-	-
Transfers to other funds	(219,923)	(3,564)	(45,843)	-
Total Other Financing Sources (Uses)	<u>596,911</u>	<u>2,775</u>	<u>55,711</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(9,705)</u>	<u>(1,358)</u>	<u>69,296</u>	<u>(22,429)</u>
Fund Balances - Beginning of fiscal year	<u>678,928</u>	<u>23,042</u>	<u>46,417</u>	<u>50,952</u>
Fund Balances - End of fiscal year	<u>\$ 669,223</u>	<u>\$ 21,684</u>	<u>\$ 115,714</u>	<u>\$ 28,523</u>

Michigan

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 5,027
245,319	-	-	-	1,217,443
-	-	-	-	17,382
-	-	-	-	3,785
-	-	-	-	17,922
2,556	-	293	332	56,752
<u>247,875</u>	<u>-</u>	<u>293</u>	<u>332</u>	<u>1,318,310</u>
-	-	-	252	252
-	-	92,068	2,656	94,724
247,875	-	-	-	968,576
-	-	5,843	63	974,149
-	-	-	-	460
<u>247,875</u>	<u>-</u>	<u>97,911</u>	<u>2,971</u>	<u>2,038,161</u>
-	-	(97,618)	(2,639)	(719,851)
-	-	-	-	90,980
-	-	-	-	10,574
-	-	-	-	274
-	-	-	9,294	832,193
-	(316)	(12,714)	-	(282,360)
<u>-</u>	<u>(316)</u>	<u>(12,714)</u>	<u>9,294</u>	<u>651,662</u>
-	(316)	(110,333)	6,655	(68,190)
-	458	(25,921)	(15,205)	758,672
<u>\$ -</u>	<u>\$ 143</u>	<u>\$ (136,254)</u>	<u>\$ (8,550)</u>	<u>\$ 690,482</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

Statutory/Budgetary Basis	STATE TRUNKLINE FUND			STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 5,027	\$ 5,027	\$ -
From federal agencies	801,264	801,264	-	100,078	100,078	-
From local agencies	15,082	15,082	-	10	10	-
From services	3,205	3,205	-	580	580	-
From licenses and permits	17,553	17,553	-	369	369	-
Miscellaneous	47,056	47,056	-	5,293	5,293	-
Proceeds from sale of capital assets	274	274	-	-	-	-
Transfers in	816,560	816,560	-	6,339	6,339	-
Total Revenues and Other Sources	1,700,994	1,700,994	-	117,694	117,694	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Transportation	1,849,014	1,744,273	104,740	125,389	121,883	3,506
Total Expenditures, Transfers Out, and Encumbrances	1,849,014	1,744,273	104,740	125,389	121,883	3,506
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (148,019)	(43,279)	\$ 104,740	\$ (7,695)	(4,189)	\$ 3,506
Reconciling Items:						
Encumbrances at September 30		33,573			2,831	
Funds not annually budgeted		-			-	
Net Reconciling Items		33,573			2,831	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(9,705)			(1,358)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		678,928			23,042	
Ending balances (GAAP Basis)		\$ 669,223			\$ 21,684	

Michigan

FUNDS NOT ANNUALLY BUDGETED

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
69,296	(22,429)	-	(316)	(110,333)	6,655
69,296	(22,429)	-	(316)	(110,333)	6,655
69,296	(22,429)	-	(316)	(110,333)	6,655
46,417	50,952	-	458	(25,921)	(15,205)
<u>\$ 115,714</u>	<u>\$ 28,523</u>	<u>\$ -</u>	<u>\$ 143</u>	<u>\$ (136,254)</u>	<u>\$ (8,550)</u>

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

Statutory/Budgetary Basis	TOTALS		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 5,027	\$ 5,027	\$ -
From federal agencies	901,342	901,342	-
From local agencies	15,092	15,092	-
From services	3,785	3,785	-
From licenses and permits	17,922	17,922	-
Miscellaneous	52,349	52,349	-
Proceeds from sale of capital assets	274	274	-
Transfers in	822,899	822,899	-
Total Revenues and Other Sources	1,818,689	1,818,689	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	1,974,403	1,866,157	108,246
Total Expenditures, Transfers Out, and Encumbrances	1,974,403	1,866,157	108,246
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (155,714)</u>	<u>(47,468)</u>	<u>\$ 108,246</u>
Reconciling Items:			
Encumbrances at September 30		36,404	
Funds not annually budgeted		<u>(57,126)</u>	
Net Reconciling Items		<u>(20,722)</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(68,190)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>758,672</u>	
Ending balances (GAAP Basis)		<u>\$ 690,482</u>	

PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

Article 9, Section 35, of the State Constitution created the Michigan Natural Resources Trust Fund. The fund, established in 1985, operates under Sections 324.1901 - 324.1910 of the Michigan Compiled Laws. The State Treasurer directs the investments of the fund, which include fixed income and equity investments.

Historically, most "royalty revenues" (i.e. rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned lands) were credited to the fund with a portion (50%, up to \$10 million per year) transferred to the Michigan State Parks Endowment Fund (MSPEF). Two-thirds of royalty revenues, less the portion transferred to MSPEF, were added to the accumulated principal until that balance reached the constitutional limitation of \$500 million. This limitation was reached in fiscal year 2011; therefore most bonus, rental and royalty revenues are now constitutionally required to be deposited into the MSPEF.

The constitutional provision also limits all future appropriations to investment and other miscellaneous income of the fund. 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 Michigan Compiled Laws Section 324.74119 to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments. The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land has been deposited into this fund through fiscal year 2011 when the Michigan Natural Resources Trust Fund (MNRTF) attained an accumulated principal amount of \$500 million. Currently all revenues from oil and gas bonuses, rentals, and royalties from State-owned land previously attributable to the MNRTF are deposited in the State Parks Endowment Fund until the accumulated principal is capped at \$800 million.

The legislature is limited to appropriating no more than 50% of revenues from oil and gas bonuses, rentals, and royalties from State-owned land plus interest and earnings and any private contributions or other revenue to the endowment fund. When the fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit, annually adjusted for inflation, may be expended.

MICHIGAN VETERANS' TRUST FUND

Article 9, Section 37 of the State Constitution created this fund to finance programs to assist veterans and their beneficiaries. A seven-member board of trustees governs the fund. Resources are provided by investment and common cash earnings. Expenditures and transfers out reflect grants to veterans and their widows or dependents, and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

**COMBINING BALANCE SHEET
PERMANENT FUNDS
SEPTEMBER 30, 2012
(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	\$ 204,677	\$ 45,534	\$ 3,666	\$ 253,877
Amounts due from local units	-	-	53	53
Other current assets	2,992	3,523	316	6,831
Total Current Assets	<u>207,669</u>	<u>49,057</u>	<u>4,036</u>	<u>260,762</u>
Investments	<u>516,065</u>	<u>159,359</u>	<u>50,753</u>	<u>726,177</u>
Total Assets	<u>\$ 723,734</u>	<u>\$ 208,416</u>	<u>\$ 54,788</u>	<u>\$ 986,939</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 261	\$ 19	\$ 1	\$ 281
Accounts payable and other liabilities	7,985	1,181	144	9,310
Amounts due to other funds	6	91	3	100
Total Current Liabilities	<u>8,252</u>	<u>1,291</u>	<u>149</u>	<u>9,692</u>
Total Liabilities	<u>8,252</u>	<u>1,291</u>	<u>149</u>	<u>9,692</u>
Fund Balances:				
Nonspendable	500,000	173,182	50,000	723,182
Restricted	215,483	33,943	4,639	254,065
Total Fund Balances	<u>715,483</u>	<u>207,126</u>	<u>54,639</u>	<u>977,247</u>
Total Liabilities and Fund Balances	<u>\$ 723,734</u>	<u>\$ 208,416</u>	<u>\$ 54,788</u>	<u>\$ 986,939</u>

Michigan

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(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	\$ 63,381	\$ 53,122	\$ 5,876	\$ 122,380
Total Revenues	<u>63,381</u>	<u>53,122</u>	<u>5,876</u>	<u>122,380</u>
EXPENDITURES				
Current:				
General government	1,257	33	1	1,291
Public safety and corrections	-	-	2,583	2,583
Conservation, environment, recreation, and agriculture	1,733	17,912	-	19,645
Capital outlay	40,958	3,188	-	44,146
Total Expenditures	<u>43,948</u>	<u>21,133</u>	<u>2,584</u>	<u>67,665</u>
Excess of Revenues over (under) Expenditures	<u>19,433</u>	<u>31,990</u>	<u>3,292</u>	<u>54,715</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	38	-	-	38
Transfers to other funds	(34)	(98)	(7)	(140)
Total Other Financing Sources (Uses)	<u>4</u>	<u>(98)</u>	<u>(7)</u>	<u>(102)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	19,437	31,891	3,285	54,613
Fund Balances - Beginning of fiscal year	<u>696,046</u>	<u>175,234</u>	<u>51,355</u>	<u>922,635</u>
Fund Balances - End of fiscal year	<u>\$ 715,483</u>	<u>\$ 207,126</u>	<u>\$ 54,639</u>	<u>\$ 977,247</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

Statutory/Budgetary Basis	MICHIGAN NATURAL RESOURCES TRUST FUND			MICHIGAN STATE PARKS ENDOWMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Miscellaneous	\$ 63,381	\$ 63,381	\$ -	\$ 53,122	\$ 53,122	\$ -
Proceeds from sale of capital assets	38	38	-	-	-	-
Total Revenues and Other Sources	63,419	63,419	-	53,122	53,122	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	82,574	70,899	11,675	23,513	22,778	735
Treasury	2,626	1,257	1,369	33	33	-
Total Expenditures, Transfers Out, and Encumbrances	85,200	72,156	13,044	23,546	22,811	735
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (21,781)</u>	<u>(8,737)</u>	<u>\$ 13,044</u>	<u>\$ 29,577</u>	<u>30,312</u>	<u>\$ 735</u>
Reconciling Items:						
Encumbrances at September 30		28,174			1,580	
Net Reconciling Items		28,174			1,580	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		19,437			31,891	
FUND BALANCES (GAAP BASIS)						
Beginning balances		696,046			175,234	
Ending balances (GAAP Basis)		<u>\$ 715,483</u>			<u>\$ 207,126</u>	

Michigan

MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 5,876	\$ 5,876	\$ -	\$ 122,380	\$ 122,380	\$ -
-	-	-	38	38	-
<u>5,876</u>	<u>5,876</u>	<u>-</u>	<u>122,417</u>	<u>\$ 122,417</u>	<u>\$ -</u>
5,110	2,595	2,515	5,110	2,595	2,515
-	-	-	106,087	93,677	12,410
<u>1</u>	<u>1</u>	<u>-</u>	<u>2,660</u>	<u>1,291</u>	<u>1,369</u>
<u>5,111</u>	<u>2,596</u>	<u>2,515</u>	<u>113,857</u>	<u>97,563</u>	<u>16,294</u>
<u>\$ 765</u>	<u>3,280</u>	<u>\$ 2,515</u>	<u>\$ 8,560</u>	<u>24,855</u>	<u>\$ 16,294</u>
	<u>5</u>			<u>29,758</u>	
	<u>5</u>			<u>29,758</u>	
	<u>3,285</u>			<u>54,613</u>	
	<u>51,355</u>			<u>922,635</u>	
	<u>\$ 54,639</u>			<u>\$ 977,247</u>	



ENTERPRISE FUNDS

ATTORNEY DISCIPLINE SYSTEM

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

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

LIQUOR PURCHASE REVOLVING FUND

Michigan Compiled Laws (MCL) Section 436.1221 authorized the Liquor Control Commission, within the Department of Licensing and Regulatory Affairs, 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.

COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
 SEPTEMBER 30, 2012
 (In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 58	\$ 1	\$ 59
Equity in common cash	-	68,459	68,459
Inventories	-	5,551	5,551
Investments	5,972	-	5,972
Other current assets	150	7,740	7,890
Total Current Assets	<u>6,180</u>	<u>81,750</u>	<u>87,931</u>
Capital Assets:			
Buildings and equipment	525	-	525
Allowance for depreciation	(428)	-	(428)
Total capital assets	<u>97</u>	<u>-</u>	<u>97</u>
Other noncurrent assets	<u>29</u>	<u>-</u>	<u>29</u>
Total Assets	<u>\$ 6,306</u>	<u>\$ 81,750</u>	<u>\$ 88,057</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 1,240	\$ 1,240
Accounts payable and other liabilities	425	78,588	79,013
Amounts due to other funds	-	192	192
Deferred revenue	476	-	476
Current portion of other long-term obligations	-	503	503
Total Current Liabilities	<u>901</u>	<u>80,523</u>	<u>81,424</u>
Long-Term Liabilities:			
Amounts due to other funds	-	210	210
Noncurrent portion of other long-term obligations	-	142	142
Total Liabilities	<u>901</u>	<u>80,874</u>	<u>81,776</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 97	\$ -	\$ 97
Unrestricted	<u>5,308</u>	<u>876</u>	<u>6,184</u>
Total Net Assets	<u>\$ 5,405</u>	<u>\$ 876</u>	<u>\$ 6,281</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 5,166	\$ 856,717	\$ 861,883
Total Operating Revenues	<u>5,166</u>	<u>856,717</u>	<u>861,883</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	4,771	70,443	75,213
Depreciation	48	-	48
Purchases for resale	-	625,322	625,322
Premiums and claims	-	13	13
Other operating expenses	-	945	945
Total Operating Expenses	<u>4,818</u>	<u>696,723</u>	<u>701,541</u>
Operating Income (Loss)	<u>348</u>	<u>159,994</u>	<u>160,342</u>
NONOPERATING REVENUES (EXPENSES)			
Specific tax on spirits	-	15,737	15,737
Interest revenue	49	90	139
Other nonoperating revenues	-	1	1
Total Nonoperating Revenues (Expenses)	<u>49</u>	<u>15,827</u>	<u>15,876</u>
Income (Loss) Before Transfers	397	175,821	176,218
TRANSFERS			
Transfers to other funds	-	(175,821)	(175,821)
Change in net assets	<u>397</u>	<u>-</u>	<u>397</u>
Total net assets - Beginning of fiscal year	<u>5,008</u>	<u>876</u>	<u>5,884</u>
Total net assets - End of fiscal year	<u>\$ 5,405</u>	<u>\$ 876</u>	<u>\$ 6,281</u>

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ -	\$ 856,717	\$ 856,717
Membership dues	4,906	-	4,906
Payments to employees	(4,503)	(19,041)	(23,543)
Payments to suppliers	(548)	(672,930)	(673,478)
Other receipts	110	27	137
Other payments	(286)	(958)	(1,244)
Net cash provided (used)			
by operating activities	<u>\$ (320)</u>	<u>\$ 163,815</u>	<u>\$ 163,495</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Specific tax on spirits	\$ -	\$ 15,737	\$ 15,737
Transfers to other funds	-	(175,821)	(175,821)
Net cash provided (used)			
by noncapital financing activities	<u>\$ -</u>	<u>\$ (160,084)</u>	<u>\$ (160,084)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (13)	-	\$ (13)
Net cash provided (used) by capital and related financing activities	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ (13)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	\$ (26)	-	\$ (26)
Interest and dividends on investments	49	90	139
Net cash provided (used)			
by investing activities	<u>\$ 23</u>	<u>\$ 90</u>	<u>\$ 112</u>
Net cash provided (used) - all activities	\$ (310)	\$ 3,820	\$ 3,510
Cash and cash equivalents at beginning of year	368	63,399	63,768
Cash and cash equivalents at end of year	<u><u>\$ 58</u></u>	<u><u>\$ 67,220</u></u>	<u><u>\$ 67,278</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ 58	\$ 1	\$ 59
Equity in common cash	-	68,459	68,459
Warrants outstanding	-	(1,240)	(1,240)
Cash and cash equivalents at end of year	<u>\$ 58</u>	<u>\$ 67,220</u>	<u>\$ 67,278</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 348	\$ 159,994	\$ 160,342
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)			
by Operating Activities:			
Depreciation expense	48	-	48
Other nonoperating revenues	-	1	1
Net Changes in Assets and Liabilities:			
Inventories	-	353	353
Other assets (net)	(10)	(215)	(225)
Accounts payable and other liabilities	(561)	3,682	3,121
Deferred revenue	(144)	-	(144)
Net cash provided (used)			
by operating activities	<u>\$ (320)</u>	<u>\$ 163,815</u>	<u>\$ 163,495</u>

INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

Authorized by Michigan Compiled Laws (MCL) Section 800.325, this fund accounts for the financial transactions of a manufacturing and processing industry, employing inmates incarcerated in Michigan's correctional institutions. MCL Section 800.326 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, a foreign government or agencies of a foreign government, a private vendor that operates the youth correctional facility, and certain tax-exempt organizations.

Executive Order 1992-13 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The minimum required payment was made in fiscal year 2012.

STATE SPONSORED GROUP INSURANCE FUND

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

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.

OFFICE SERVICES REVOLVING FUND

Created in 1952, this fund operates under Michigan Compiled Laws Section 18.1269 to provide services in the following areas: printing, reproduction, microfilm, mailing, distribution of federal and state surplus property, and materials management. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment. During fiscal year 2002, the use of the fund was expanded to account for the purchase of bulk gas used by State agencies.

MOTOR TRANSPORT FUND

This fund was created by Michigan Compiled Laws Section 18.1213 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short-term usage and are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are billed on a monthly basis for services rendered.

RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Technology, 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.

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

SEPTEMBER 30, 2012

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	-	259,483	-
Amounts due from other funds	-	23,714	-
Inventories	10,171	-	24
Other current assets	292	11,981	7,784
Total Current Assets	<u>10,463</u>	<u>295,178</u>	<u>7,808</u>
Capital Assets:			
Land and other non-depreciable assets	-	-	9,170
Buildings and equipment	36,770	-	752,783
Allowance for depreciation	(19,660)	-	(508,253)
Total capital assets	<u>17,110</u>	<u>-</u>	<u>253,700</u>
Other noncurrent assets	<u>-</u>	<u>1,200</u>	<u>-</u>
Total Assets	<u>\$ 27,573</u>	<u>\$ 296,378</u>	<u>\$ 261,507</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 56	\$ 5	\$ 190
Accounts payable and other liabilities	1,198	26,928	43,024
Amounts due to other funds	9,071	-	18,191
Amounts due to component units	-	-	25
Deferred revenue	-	98	47,423
Current portion of other long-term obligations	688	43,162	15,780
Total Current Liabilities	<u>11,013</u>	<u>70,192</u>	<u>124,633</u>
Long-Term Liabilities:			
Advances from other funds	5,616	-	-
Amounts due to other funds	20	-	1,996
Deferred revenue	-	-	54,522
Noncurrent portion of other long-term obligations	466	89,758	24,299
Total Liabilities	<u>\$ 17,115</u>	<u>\$ 159,950</u>	<u>\$ 205,451</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 17,110	\$ -	\$ 232,338
Restricted for other purposes	-	-	-
Unrestricted	(6,652)	136,428	(176,282)
Total Net Assets	<u>\$ 10,458</u>	<u>\$ 136,428</u>	<u>\$ 56,056</u>

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 3	\$ 1	\$ -	\$ 4
6,420	8,855	8,800	283,558
-	-	2,072	25,786
2,958	361	-	13,514
4,082	2,135	-	26,274
<u>13,464</u>	<u>11,351</u>	<u>10,872</u>	<u>349,135</u>
-	-	-	9,170
16,126	9,325	-	815,004
(10,702)	(9,145)	-	(547,760)
<u>5,425</u>	<u>180</u>	<u>-</u>	<u>276,414</u>
-	-	1,550	2,750
<u>\$ 18,889</u>	<u>\$ 11,531</u>	<u>\$ 12,422</u>	<u>\$ 628,299</u>
\$ 188	\$ 2	\$ -	\$ 440
10,702	3,019	622	85,494
240	34	6	27,541
-	-	-	25
-	-	-	47,521
716	166	2,279	62,790
<u>11,846</u>	<u>3,221</u>	<u>2,907</u>	<u>223,812</u>
-	-	-	5,616
311	30	5	2,364
-	-	-	54,522
<u>687</u>	<u>182</u>	<u>4,936</u>	<u>120,329</u>
<u>\$ 12,844</u>	<u>\$ 3,434</u>	<u>\$ 7,849</u>	<u>\$ 406,642</u>
\$ 5,425	\$ 180	\$ -	\$ 255,053
-	7,917	-	7,917
620	-	4,573	(41,313)
<u>\$ 6,045</u>	<u>\$ 8,097</u>	<u>\$ 4,573</u>	<u>\$ 221,657</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
OPERATING REVENUES			
Operating revenues	\$ 36,016	\$ 730,153	\$ 518,944
Total Operating Revenues	<u>36,016</u>	<u>730,153</u>	<u>518,944</u>
OPERATING EXPENSES			
Salaries, wages, and other administrative	18,905	20,366	468,892
Depreciation	1,118	-	55,046
Purchases for resale	-	-	-
Purchases for prison industries	17,017	-	-
Premiums and claims	-	685,809	-
Other operating expenses:			
Leased vehicles expense	-	-	-
Vehicle maintenance expense	-	-	-
Total other operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>37,041</u>	<u>706,175</u>	<u>523,938</u>
Operating Income (Loss)	<u>(1,024)</u>	<u>23,978</u>	<u>(4,995)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	271	-
Other nonoperating revenues	-	-	460
Interest expense	(7)	-	(779)
Other nonoperating expense	<u>(374)</u>	<u>-</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(381)</u>	<u>271</u>	<u>(319)</u>
Income (Loss) Before Transfers	(1,405)	24,249	(5,314)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to other funds	<u>(225)</u>	<u>-</u>	<u>(2,504)</u>
Total Transfers In (Out)	<u>(225)</u>	<u>-</u>	<u>(2,504)</u>
Change in net assets	(1,630)	24,249	(7,818)
Total net assets - Beginning of fiscal year - restated	<u>12,088</u>	<u>112,179</u>	<u>63,874</u>
Total net assets - End of fiscal year	<u>\$ 10,458</u>	<u>\$ 136,428</u>	<u>\$ 56,056</u>

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 94,379	\$ 61,557	\$ 4,361	\$ 1,445,409
<u>94,379</u>	<u>61,557</u>	<u>4,361</u>	<u>1,445,409</u>
25,833	6,014	2,918	542,929
934	33	-	57,132
65,726	-	-	65,726
-	-	-	17,017
-	1,585	1,475	688,870
-	23,358	-	23,359
-	30,950	-	30,950
<u>-</u>	<u>54,308</u>	<u>-</u>	<u>54,309</u>
<u>92,493</u>	<u>61,940</u>	<u>4,394</u>	<u>1,425,982</u>
<u>1,885</u>	<u>(383)</u>	<u>(33)</u>	<u>19,427</u>
-	-	-	271
5	27	-	492
-	-	-	(786)
<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(375)</u>
<u>4</u>	<u>27</u>	<u>-</u>	<u>(397)</u>
1,889	(356)	(33)	19,030
<u>(178)</u>	<u>(45)</u>	<u>(29)</u>	<u>(2,981)</u>
<u>(178)</u>	<u>(45)</u>	<u>(29)</u>	<u>(2,981)</u>
1,711	(401)	(62)	16,049
<u>4,334</u>	<u>8,498</u>	<u>4,635</u>	<u>205,608</u>
<u>\$ 6,045</u>	<u>\$ 8,097</u>	<u>\$ 4,573</u>	<u>\$ 221,657</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 36,033	\$ 729,458	\$ 553,103
Payments to employees	(12,929)	(339,287)	(177,828)
Payments to suppliers	(15,521)	(352,649)	(294,214)
Claims paid	-	-	-
Other receipts	-	-	-
Other payments	(6,031)	-	-
Net cash provided (used) by operating activities	<u>\$ 1,552</u>	<u>\$ 37,522</u>	<u>\$ 81,060</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Loans or loan repayments from other funds	\$ 8,974	\$ 16,107	\$ 16,069
Loans or loan repayments to other funds	(9,415)	(22,946)	(8,765)
Transfers from other funds	-	-	-
Transfers to other funds	(225)	-	(2,504)
Net cash provided (used) by noncapital financing activities	<u>\$ (666)</u>	<u>\$ (6,839)</u>	<u>\$ 4,800</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (203)	\$ -	\$ (73,345)
Interest paid	(7)	-	-
Capital lease payments (including imputed interest expense)	-	-	(9,432)
Proceeds from sale of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	<u>\$ (210)</u>	<u>\$ -</u>	<u>\$ (82,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	\$ -	\$ 271	\$ -
Net cash provided (used) by investing activities	<u>\$ -</u>	<u>\$ 271</u>	<u>\$ -</u>
Net cash provided (used) - all activities	\$ 676	\$ 30,954	\$ 3,084
Cash and cash equivalents at beginning of year	(732)	228,524	(3,274)
Cash and cash equivalents at end of year	<u><u>\$ (56)</u></u>	<u><u>\$ 259,479</u></u>	<u><u>\$ (190)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Assets Classifications:			
Cash	\$ -	\$ -	\$ -
Equity in common cash	-	259,483	-
Warrants outstanding	(56)	(5)	(190)
Cash and cash equivalents at end of year	<u>\$ (56)</u>	<u>\$ 259,479</u>	<u>\$ (190)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,024)	\$ 23,978	\$ (4,995)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	1,118	-	55,046
Other reconciling items	-	-	-
Net Changes in Assets and Liabilities:			
Inventories	1,659	-	31
Other assets (net)	16	(1,221)	(4,137)
Accounts payable and other liabilities	(217)	14,790	2,453
Deferred revenue	-	(24)	32,662
Net cash provided (used) by operating activities	<u>\$ 1,552</u>	<u>\$ 37,522</u>	<u>\$ 81,060</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Capital contributions	\$ -	\$ -	\$ -
Cost of capital assets acquisitions financed by capital leases	-	-	6,572
Capital lease liabilities entered into during the year	-	-	(6,572)
Gain (loss) on disposal of capital assets	(374)	-	-
Total noncash investing, capital, and financing activities	<u>\$ (374)</u>	<u>\$ -</u>	<u>\$ -</u>

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 94,128	\$ 61,413	\$ 4,361	\$ 1,478,495
(11,919)	(2,834)	(662)	(545,461)
(78,147)	(55,837)	(2,338)	(798,705)
-	-	(1,708)	(1,708)
-	240	-	240
-	-	-	(6,031)
<u>\$ 4,062</u>	<u>\$ 2,981</u>	<u>\$ (348)</u>	<u>\$ 126,829</u>
\$ -	\$ -	\$ -	\$ 41,150
-	-	(2,072)	(43,197)
-	-	-	-
(178)	(45)	(29)	(2,981)
<u>\$ (178)</u>	<u>\$ (45)</u>	<u>\$ (2,101)</u>	<u>\$ (5,028)</u>
(1,496)	\$ -	\$ -	\$ (75,044)
-	-	-	(7)
-	-	-	(9,432)
5	27	-	32
<u>\$ (1,491)</u>	<u>\$ 27</u>	<u>\$ -</u>	<u>\$ (84,450)</u>
\$ -	\$ -	\$ -	\$ 271
\$ -	\$ -	\$ -	\$ 271
\$ 2,393	\$ 2,964	\$ (2,448)	\$ 37,622
3,843	5,890	11,248	245,500
<u>\$ 6,236</u>	<u>\$ 8,853</u>	<u>\$ 8,800</u>	<u>\$ 283,122</u>
\$ 3	\$ 1	\$ -	\$ 4
6,420	8,855	8,800	283,558
(188)	(2)	-	(440)
<u>\$ 6,236</u>	<u>\$ 8,853</u>	<u>\$ 8,800</u>	<u>\$ 283,122</u>
\$ 1,885	\$ (383)	\$ (33)	\$ 19,427
934	33	-	57,132
-	-	-	-
325	39	-	2,054
(65)	560	1	(4,846)
1,034	2,732	(315)	20,476
(52)	-	-	32,586
<u>\$ 4,062</u>	<u>\$ 2,981</u>	<u>\$ (348)</u>	<u>\$ 126,829</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	6,572
-	-	-	(6,572)
(1)	-	-	(375)
<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (375)</u>

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS

The State of Michigan 457 Plan and the State of Michigan 401k Plan 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.

LEGISLATIVE PENSION BENEFITS FUND

This fund was established to account for pension benefits of the Legislative Retirement System (LRS) created by Michigan Compiled Laws (MCL) Section 38.1001. LRS's pension plan provides benefits for members of the Legislature, the presiding officers, and their surviving spouses or children. Participants in the system have a deduction from each salary payment to partially finance the fund. Legislative appropriations, interest on fund investments, and court fees complete the financing.

MCL Section 38.1018 amended LRS's enabling legislation to provide that individuals who first became a legislator or lieutenant governor on or after March 31, 1997, participate in the State's defined contribution plan.

LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND

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

STATE POLICE PENSION BENEFITS FUND

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

As a result of contract negotiations, a pension plus plan was created which pairs a guaranteed retirement income (Defined Benefit pension) with a flexible and transferable retirement savings (Defined Contribution) account for employees first hired on or after June 10, 2012.

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits of the Michigan State Police Retirement System (MSPRS) created by Michigan Compiled Laws Section 38.1605. MSPRS's health plan provides retirees hired before June 10, 2012 with the option of receiving health, dental, and vision coverage. Employees hired on or after June 10, 2012 are accounted for within the State of Michigan Defined Contribution Personal Health Care Fund.

STATE EMPLOYEES' PENSION BENEFITS FUND

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

Effective March 31, 1997, MCL Section 38.13 closed the plan to new applicants. All new employees become members of the State's defined contribution plan. The law also allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

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

PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND

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

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

Various MCLs, beginning with Section 38.1304, were amended to create a new "pension plus" plan which pairs a guaranteed retirement income (defined benefit) with a flexible and transferable retirement savings (defined contribution) account for employees first hired after June 30, 2010.

**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 (MPSERS) created by Michigan Compiled Laws Section 38.1321. MPSERS's health plan provides all retirees with the option of receiving health, dental, and vision coverage.

Effective July 1, 2010, MCL Section 38.1343e requires employees to contribute a percentage of their compensation into a funding account established under the public employee retirement health care fund act.

JUDGES' PENSION BENEFITS FUND

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

MCL Section 38.2401a, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND

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

**STATE OF MICHIGAN DEFINED CONTRIBUTION
RETIREMENT FUND**

This fund was established by Michigan Compiled Laws Section 38.11 as a defined contribution pension plan. Membership within the plan includes all State employees hired after March 31, 1997, Public School Reporting Units members hired after July 1, 2010, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elect to transfer to this plan. This fund also includes the State of Michigan Personal Healthcare subfund created by Public Act 264 of 2011 for all employees hired after January 1, 2012 and those who elected to transfer to this plan.

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

SEPTEMBER 30, 2012

(In Thousands)

	STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ASSETS				
Equity in common cash	\$ 2,503	\$ 2,156	\$ 309	\$ 7,335
Receivables:				
From participants	69,195	-	-	2
From employer	-	-	-	9
Other	346	-	-	-
Interest and dividends	-	47	7	160
Due from other funds	-	71	10	1,518
Due from component unit	-	-	-	-
Due from other governmental	-	-	177	-
Sale of investments	-	245	35	-
Investments at Fair Value:				
Short-term investments	-	-	-	53,908
Fixed Income	-	-	-	140,988
Domestic equities	-	58,090	8,321	287,310
Real estate	-	-	-	114,512
Alternative investments	-	7,073	1,013	231,400
International equities	-	1,876	269	151,013
Absolute return	-	-	-	88,144
Mutual funds	910,771	75,115	10,760	-
Pooled investment funds	1,114,756	-	-	-
Separate accounts	1,220,510	-	-	-
Securities lending collateral	-	-	-	81,048
Total Assets	\$ 3,318,080	\$ 144,674	\$ 20,901	\$ 1,157,347
LIABILITIES				
Warrants outstanding	\$ -	\$ 24	\$ 3	\$ 57
Accounts payable and other liabilities	2,220	502	73	492
Amounts due to other funds	-	2	-	-
Obligations under security lending	-	-	-	104,416
Deferred revenue	-	-	-	-
Total Liabilities	\$ 2,220	\$ 529	\$ 76	\$ 104,965
NET ASSETS				
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	<u>\$ 3,315,860</u>	<u>\$ 144,146</u>	<u>\$ 20,825</u>	<u>\$ 1,052,383</u>
Reconciliation of Net Assets Held in Trust:				
Pension benefits	\$ -	\$ 144,146	\$ -	\$ 1,052,383
Postemployment health-care benefits	-	-	20,825	-
Deferred compensation participants	3,315,860	-	-	-
Total net assets held in trust for benefits	\$ 3,315,860	\$ 144,146	\$ 20,825	\$ 1,052,383

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
\$ 12,785	\$ 47,325	\$ 41,642	\$ 39,252	\$ 113,722	\$ 2,593
-	223	-	904	-	16
-	93,306	25,351	253,943	50,795	91
951	-	14,369	-	42,623	-
2	1,408	18	5,896	231	37
1,770	1,960	-	-	-	-
-	615	150	-	-	-
314	-	7,304	-	-	-
-	-	-	-	-	-
9,374	306,460	187,918	1,747,923	588,218	4,341
1,504	1,265,877	15,777	5,068,036	198,484	38,117
3,066	2,556,832	31,890	10,414,415	407,833	68,565
1,171	1,017,622	12,161	3,963,597	148,678	33,826
2,468	2,006,272	25,005	8,261,101	323,537	38,479
1,420	1,365,904	15,035	5,391,999	185,608	36,203
940	821,799	10,243	3,423,827	134,090	23,609
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
865	721,908	9,004	2,928,820	114,695	19,483
<u>\$ 36,629</u>	<u>\$ 10,207,508</u>	<u>\$ 395,867</u>	<u>\$ 41,499,714</u>	<u>\$ 2,308,514</u>	<u>\$ 265,361</u>
\$ -	\$ 964	\$ -	\$ 3,517	\$ 2	\$ 15
2,518	4,158	39,559	20,022	264,049	101
-	-	397	-	-	-
1,114	930,050	11,599	3,773,266	147,764	25,100
1	-	-	2,497	-	-
<u>\$ 3,634</u>	<u>\$ 935,173</u>	<u>\$ 51,556</u>	<u>\$ 3,799,302</u>	<u>\$ 411,814</u>	<u>\$ 25,216</u>
<u>\$ 32,996</u>	<u>\$ 9,272,336</u>	<u>\$ 344,311</u>	<u>\$ 37,700,412</u>	<u>\$ 1,896,700</u>	<u>\$ 240,145</u>
\$ -	\$ 9,272,336	\$ -	\$ 37,700,412	\$ -	\$ 240,145
32,996	-	344,311	-	1,896,700	-
-	-	-	-	-	-
<u>\$ 32,996</u>	<u>\$ 9,272,336</u>	<u>\$ 344,311</u>	<u>\$ 37,700,412</u>	<u>\$ 1,896,700</u>	<u>\$ 240,145</u>

This statement continued on next page.

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

SEPTEMBER 30, 2012

(In Thousands)

ASSETS	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE OF MICHIGAN DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
Equity in common cash	\$ 122	\$ 952	\$ 270,697
Receivables:			
From participants	-	150,988	221,327
From employer	3	-	423,498
Other	4	1,162	59,454
Interest and dividends	-	-	7,806
Due from other funds	-	-	5,329
Due from component unit	-	-	765
Due from other governmental	-	-	7,795
Sale of investments	-	-	281
Investments at Fair Value:			
Short-term investments	27	-	2,898,169
Fixed Income	104	-	6,728,887
Domestic equities	187	-	13,836,510
Real estate	88	-	5,291,654
Alternative investments	105	-	10,896,454
International equities	88	-	7,149,415
Absolute return	64	-	4,502,716
Mutual funds	-	518,805	1,515,451
Pooled investment funds	-	994,310	2,109,067
Separate accounts	-	263,736	1,484,246
Securities lending collateral	53	-	3,875,875
Total Assets	\$ 845	\$ 1,929,954	\$ 61,285,395
LIABILITIES			
Warrants outstanding	\$ -	\$ -	\$ 4,582
Accounts payable and other liabilities	42	-	333,737
Amounts due to other funds	-	1,668	2,067
Obligations under security lending	68	-	4,993,377
Deferred Revenue	-	-	2,498
Total Liabilities	\$ 110	\$ 1,668	\$ 5,336,263
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits	<u>\$ 735</u>	<u>\$ 1,928,286</u>	<u>\$ 55,949,133</u>
Reconciliation of Net Assets Held in Trust:			
Pension benefits	\$ -	\$ 1,928,286	\$ 50,337,707
Postemployment health-care benefits	735	-	2,295,566
Deferred compensation participants	-	-	3,315,860
Total net assets held in trust for benefits	\$ 735	\$ 1,928,286	\$ 55,949,133



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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	STATE OF MICHIGAN DEFERRED COMPENSATION FUNDS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ADDITIONS				
Contributions:				
From participants	\$ 96,739	\$ 8	\$ 92	\$ 229
From employers	-	-	6,887	40,687
From other plans	2,567	-	-	-
From other governmental	-	-	256	-
From other systems	982	-	-	-
Investment Income:				
Net appreciation (depreciation) in fair value of investments	379,869	23,845	2,759	131,383
Interest, dividends, and other	48,140	2,874	330	20,166
Securities lending income	-	-	-	2,253
Less Investment Expense:				
Investment activity expense	-	548	63	3,675
Securities lending expense	-	-	-	295
Net investment income (loss)	428,009	26,172	3,026	149,832
Miscellaneous income	1,260	81	953	13
Total Additions	529,556	26,261	11,214	190,761
DEDUCTIONS				
Benefits paid to participants or beneficiaries	113,638	12,875	-	104,963
Medical, dental, and life insurance for retirants	-	-	5,520	-
Refunds and transfers to other systems	132,997	16	-	-
Administrative and other expenses	8,008	411	48	755
Transfers to other funds	-	-	-	1
Total Deductions	254,642	13,301	5,568	105,719
Net increase (decrease)	274,913	12,959	5,646	85,041
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year - restated	3,040,947	131,186	15,179	967,341
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year	\$ 3,315,860	\$ 144,146	\$ 20,825	\$ 1,052,383
Reconciliation of Net Increase in Assets:				
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 12,959	\$ -	\$ 85,041
Net increase (decrease) in assets held in trust for postemployment benefits	-	-	5,646	-
Net increase (decrease) in assets held in trust for deferred compensation participants	274,913	-	-	-
Total net increase (decrease)	\$ 274,913	\$ 12,959	\$ 5,646	\$ 85,041

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
\$ 1,337	\$ 33,291	\$ 27,432	\$ 335,471	\$ 387,567	\$ 1,354
46,191	419,927	648,881	1,454,439	795,595	-
-	-	-	-	-	-
1,061	-	23,774	-	17,406	-
-	-	-	-	-	-
1,391	1,165,850	14,424	4,721,486	183,274	30,179
218	179,619	2,329	726,712	29,355	4,863
26	19,887	274	82,645	3,468	526
38	32,827	396	133,652	5,037	787
3	2,604	39	10,694	417	70
<u>1,594</u>	<u>1,329,925</u>	<u>16,592</u>	<u>5,386,497</u>	<u>210,642</u>	<u>34,711</u>
<u>17</u>	<u>96</u>	<u>248</u>	<u>579</u>	<u>790</u>	<u>1,112</u>
<u>50,199</u>	<u>1,783,240</u>	<u>716,927</u>	<u>7,176,986</u>	<u>1,412,001</u>	<u>37,177</u>
-	1,156,035	-	4,082,243	-	20,792
28,421	-	476,508	-	785,896	-
-	189	17	31,865	2,462	-
876	9,228	16,618	36,980	179,259	207
-	26	-	140	-	-
<u>29,297</u>	<u>1,165,478</u>	<u>493,144</u>	<u>4,151,227</u>	<u>967,617</u>	<u>21,000</u>
20,902	617,761	223,783	3,025,759	444,384	16,178
12,093	8,654,575	120,528	34,674,653	1,452,316	223,967
<u>\$ 32,996</u>	<u>\$ 9,272,336</u>	<u>\$ 344,311</u>	<u>\$ 37,700,412</u>	<u>\$ 1,896,700</u>	<u>\$ 240,145</u>
\$ -	\$ 617,761	\$ -	\$ 3,025,759	\$ -	\$ 16,178
20,902	-	223,783	-	444,384	-
-	-	-	-	-	-
<u>\$ 20,902</u>	<u>\$ 617,761</u>	<u>\$ 223,783</u>	<u>\$ 3,025,759</u>	<u>\$ 444,384</u>	<u>\$ 16,178</u>

This statement continued on next page.

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	STATE OF MICHIGAN DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS
ADDITIONS			
Contributions:			
From participants	\$ 522	\$ 97,554	\$ 981,595
From employers	-	116,530	3,529,137
From other plans	-	1	2,568
From other governmental	-	-	42,497
From other systems	-	5,920	6,902
Investment Income:			
Net appreciation (depreciation) in fair value of investments	81	249,274	6,903,815
Interest, dividends, and other	13	20,767	1,035,387
Securities lending income	2	-	109,081
Less Investment Expense:			
Investment activity expense	2	-	177,025
Securities lending expense	-	-	14,124
Net investment income (loss)	94	270,041	7,857,134
Miscellaneous income	100	652	5,902
Total Additions	716	490,697	12,425,734
DEDUCTIONS			
Benefits paid to participants or beneficiaries	-	49,549	5,540,094
Medical, dental, and life insurance for retirants	544	-	1,296,891
Refunds and transfers to other systems	-	48,084	215,629
Administrative and other expenses	35	5,880	258,306
Transfers to other funds	-	-	167
Total Deductions	579	103,513	7,311,086
Net increase (decrease)	137	387,184	5,114,647
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - Beginning of fiscal year - restated	598	1,541,102	50,834,485
Net assets held in trust for pension, postemployment health-care, and deferred compensation benefits - End of fiscal year	\$ 735	\$ 1,928,286	\$ 55,949,133
Reconciliation of Net Increase in Assets:			
Net increase (decrease) in assets held in trust for pension benefits	\$ -	\$ 387,184	\$ 4,144,882
Net increase (decrease) in assets held in trust for postemployment benefits	137	-	694,852
Net increase (decrease) in assets held in trust for deferred compensation participants	-	-	274,913
Total net increase (decrease)	\$ 137	\$ 387,184	\$ 5,114,647

PRIVATE PURPOSE TRUST FUNDS

MICHIGAN EDUCATION SAVINGS PROGRAM

Michigan Compiled Laws Section 390.1473 established the Michigan Education Savings Program (MESP) as an entity within the Department of Treasury. MESP is a college-tuition savings plan that is designed to collect and invest deposits made by contributors, for purposes of financing tuition on behalf of future students. The State makes limited contributions into the program as prescribed by law. Investment earnings, held in trust by MESP, are Federal and State tax-deferred until the student is ready to attend college. The State offers a tax deduction for contributions made each year.

ESCHEATS FUND

The Escheats Fund operates under the authority of Sections 567.221 – 567.265 of the Michigan Compiled Laws and is used to account for unclaimed property held by the State until claimed by the rightful owners. All property, including any income or increment derived from the property, is subject to the custody of (escheated to) the State when certain criteria contained within the laws are met. Proceeds of the fund pay the administrative costs and prompt claims allowed under the laws.

GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND

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

HOSPITAL PATIENTS' TRUST FUND

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

Michigan

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

SEPTEMBER 30, 2012

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	TOTALS
ASSETS					
Cash	\$ 294	\$ -	\$ 1,644	\$ 16	\$ 1,954
Equity in common cash	-	89,202	19,369	123	108,694
Receivables:					
Interest and dividends	1,661	-	125	-	1,786
Investments at Fair Value:					
Fixed income	-	-	21,129	-	21,129
Mutual funds	2,917,755	-	10	-	2,917,765
Guaranteed funding agreements	270,555	-	-	-	270,555
Other current assets	1,973	1,937	2,670	12	6,592
Other noncurrent assets	-	-	600	-	600
	<u>\$ 3,192,239</u>	<u>\$ 91,139</u>	<u>\$ 45,547</u>	<u>\$ 151</u>	<u>\$ 3,329,076</u>
Total Assets					
	<u>\$ 3,192,239</u>	<u>\$ 91,139</u>	<u>\$ 45,547</u>	<u>\$ 151</u>	<u>\$ 3,329,076</u>
LIABILITIES					
Warrants outstanding	\$ -	\$ 3,368	\$ 352	\$ 9	\$ 3,729
Accounts payable and other liabilities	4,032	34	3,806	5	7,877
	<u>\$ 4,032</u>	<u>\$ 3,402</u>	<u>\$ 4,157</u>	<u>\$ 14</u>	<u>\$ 11,605</u>
Total Liabilities					
	<u>\$ 4,032</u>	<u>\$ 3,402</u>	<u>\$ 4,157</u>	<u>\$ 14</u>	<u>\$ 11,605</u>
NET ASSETS					
Net assets held in trust for other purposes	<u>\$ 3,188,207</u>	<u>\$ 87,738</u>	<u>\$ 41,390</u>	<u>\$ 136</u>	<u>\$ 3,317,471</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	TOTALS
ADDITIONS					
Contributions:					
From participants	\$ 1,069,654	\$ -	\$ -	\$ -	\$ 1,069,654
From clients	-	-	63,373	923	64,295
From gifts, bequests, and endowments	-	-	38,739	-	38,739
Investment Income:					
Net appreciation (depreciation) in fair value of investments	346,072	-	424	-	346,496
Interest, dividends, and other	55,751	-	648	-	56,400
Net investment income (loss)	401,823	-	1,073	-	402,896
Escheated property	-	30,653	-	-	30,653
Miscellaneous income	-	-	107	-	107
Total Additions	<u>1,471,477</u>	<u>30,653</u>	<u>103,291</u>	<u>923</u>	<u>1,606,344</u>
DEDUCTIONS					
Benefits paid to participants or beneficiaries	878,078	-	-	-	878,078
Amounts distributed to clients, claimants, or third parties	-	93,466	101,129	912	195,506
Administrative expense	5,438	4,554	9	-	10,000
Total Deductions	<u>883,516</u>	<u>98,020</u>	<u>101,138</u>	<u>912</u>	<u>1,083,585</u>
Net increase (decrease)	587,962	(67,367)	2,153	11	522,760
Net assets held in trust for others - Beginning of fiscal year	<u>2,600,245</u>	<u>155,104</u>	<u>39,237</u>	<u>125</u>	<u>2,794,711</u>
Net assets held in trust for others End of fiscal year	<u>\$ 3,188,207</u>	<u>\$ 87,738</u>	<u>\$ 41,390</u>	<u>\$ 136</u>	<u>\$ 3,317,471</u>
Reconciliation of Net Increase in Assets:					
Net increase (decrease) in assets held in trust for other purposes	<u>\$ 587,962</u>	<u>\$ (67,367)</u>	<u>\$ 2,153</u>	<u>\$ 11</u>	<u>\$ 522,760</u>
Total net increase (decrease)	<u>\$ 587,962</u>	<u>\$ (67,367)</u>	<u>\$ 2,153</u>	<u>\$ 11</u>	<u>\$ 522,760</u>

AGENCY FUNDS

ENVIRONMENTAL QUALITY DEPOSITS FUND

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

INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established to account for deposits held by the State Treasurer on behalf of insurance carriers who are licensed or authorized to write insurance in the State and are required by Michigan Compiled Laws Section 500.411, to provide such deposits. All deposits are in the form of various securities and other acceptable assets.

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, 2012

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	CHILD SUPPORT COLLECTION FUND	TOTALS
ASSETS				
Cash	\$ -	\$ -	\$ 39,288	\$ 39,288
Equity in common cash	2,423	1,674	-	4,097
Other noncurrent assets	-	366,411	-	366,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ 2,423	\$ 368,085	\$ 39,288	\$ 409,796
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,423	\$ 1,674	\$ 38,543	\$ 42,640
Amounts due to other funds	-	-	745	745
Other long-term liabilities	-	366,411	-	366,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 2,423	\$ 368,085	\$ 39,288	\$ 409,796
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

	BALANCE OCTOBER 1, 2011	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2012
ENVIRONMENTAL QUALITY DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 2,712	\$ 15	\$ 303	\$ 2,423
Total Assets	<u>\$ 2,712</u>	<u>\$ 15</u>	<u>\$ 303</u>	<u>\$ 2,423</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,712	\$ 15	\$ 303	\$ 2,423
Total Liabilities	<u>\$ 2,712</u>	<u>\$ 15</u>	<u>\$ 303</u>	<u>\$ 2,423</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 7,059	\$ 69,570	\$ 74,955	\$ 1,674
Other noncurrent assets	371,462	118,536	123,587	366,411
Total Assets	<u>\$ 378,521</u>	<u>\$ 188,106</u>	<u>\$ 198,542</u>	<u>\$ 368,085</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 7,059	\$ 69,570	\$ 74,955	\$ 1,674
Other long-term liabilities	371,462	118,536	123,587	366,411
Total Liabilities	<u>\$ 378,521</u>	<u>\$ 188,106</u>	<u>\$ 198,542</u>	<u>\$ 368,085</u>

	BALANCE OCTOBER 1, 2011	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2012
CHILD SUPPORT COLLECTION FUND				
ASSETS				
Cash	\$ 42,509	\$ 1,496,188	\$ 1,499,409	\$ 39,288
Other current assets	1	1	1	-
Total Assets	\$ 42,510	\$ 1,496,189	\$ 1,499,410	\$ 39,288
LIABILITIES				
Accounts payable and other liabilities	\$ 41,700	\$ 1,699,403	\$ 1,702,560	\$ 38,543
Amounts due to other funds	810	6,152	6,216	745
Total Liabilities	\$ 42,510	\$ 1,705,555	\$ 1,708,776	\$ 39,288
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 42,509	\$ 1,496,188	\$ 1,499,409	\$ 39,288
Equity in common cash	9,770	69,584	75,258	4,097
Other current assets	1	1	1	-
Other noncurrent assets	371,462	118,536	123,587	366,411
Total Assets	\$ 423,742	\$ 1,684,309	\$ 1,698,255	\$ 409,796
LIABILITIES				
Accounts payable and other liabilities	\$ 51,470	\$ 1,768,987	\$ 1,777,818	\$ 42,640
Amounts due to other funds	810	6,152	6,216	745
Other long-term liabilities	371,462	118,536	123,587	366,411
Total Liabilities	\$ 423,742	\$ 1,893,675	\$ 1,907,621	\$ 409,796



COMPONENT UNITS – AUTHORITIES

FARM PRODUCE INSURANCE AUTHORITY

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

LAND BANK FAST TRACK AUTHORITY

Michigan Compiled Laws Section 124.765 created the Land Bank Fast Track Authority (LBFTA) to assemble or dispose of public property, including tax reverted property, in a coordinated manner to foster the development of the property and to promote economic growth within the State. LBFTA receives public 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 Licensing and Regulatory Affairs, the Chief Executive Officer of the Michigan Economic Development Corporation, the Executive Director of the Michigan State Housing Development Authority, or their respective designees, and four members appointed by the Governor.

MACKINAC BRIDGE AUTHORITY

Michigan Compiled Laws (MCL) Section 254.302 created the Mackinac Bridge Authority (MBA). MCL Section 254.314 empowered MBA to construct and operate a bridge between the lower and upper peninsulas of Michigan. Fares and earnings on investments finance the operation and maintenance of the bridge. State statutes require that MBA continue charging bridge tolls and repay State funds for all the subsidies provided in prior years.

MACKINAC ISLAND STATE PARK COMMISSION

Established in 1927, the Mackinac Island State Park Commission currently operates under Sections 324.76701 – 324.76709 of the Michigan Compiled Laws. The Governor, with the advice and consent of the Senate, appoints the seven-member commission. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue-dedicated bonds.

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION

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

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC), under Article 7, Section 28 of the State Constitution of 1963 and Sections 124.501 – 124.512 of the Michigan Compiled Laws (MCL), is a public body corporate. Created by a ten-year contract (interlocal agreement) between participating local economic development corporations formed under Sections 125.1601 – 125.1636 of the MCL and the Michigan Strategic Fund, MEDC is a separate legal entity whose purpose is to stimulate, coordinate and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 20 members appointed to eight-year, staggered terms.

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 operations are financed 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, 2012

(In Thousands)

	FARM PRODUCE INSURANCE AUTHORITY	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION
ASSETS				
Current Assets:				
Cash	\$ 1,038	\$ -	\$ 989	\$ 731
Equity in common cash	-	23,160	-	-
Amounts due from component units	-	-	-	-
Amounts due from primary government	-	-	-	-
Amounts due from federal government	-	6,203	-	-
Inventories	-	-	-	578
Investments	1,358	-	6,939	111
Other current assets	27	46	43	91
Total Current Assets	<u>2,424</u>	<u>29,409</u>	<u>7,971</u>	<u>1,511</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	2,109
Investments	-	-	-	2,276
Advances to primary government	-	-	-	-
Mortgages and loans receivable	-	5,900	-	-
Investments	3,637	-	55,572	-
Land and property held for resale	-	20,879	-	-
Capital Assets:				
Land and other non-depreciable assets	-	-	125	337
Buildings, equipment, and other depreciable assets	-	-	8,184	12,012
Less accumulated depreciation	-	-	(4,232)	(8,802)
Infrastructure	-	-	102,758	-
Construction in progress	-	-	-	707
Total capital assets	-	-	106,835	4,254
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 6,060</u>	<u>\$ 56,188</u>	<u>\$ 170,379</u>	<u>\$ 10,149</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 57	\$ -	\$ -
Accounts payable and other liabilities	-	1,593	1,230	86
Amounts due to component units	-	21	-	-
Amounts due to primary government	-	7	2,213	40
Bonds and notes payable	-	-	-	50
Interest payable	-	-	-	17
Deferred revenue	-	3	979	-
Current portion of other long-term obligations	-	39	193	-
Total Current Liabilities	<u>-</u>	<u>1,721</u>	<u>4,615</u>	<u>193</u>
Deferred revenue	-	-	1,572	-
Bonds and notes payable	-	-	-	1,715
Noncurrent portion of other long-term obligations	-	42	328	-
Total Liabilities	<u>\$ -</u>	<u>\$ 1,763</u>	<u>\$ 6,515</u>	<u>\$ 1,908</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ 106,835	\$ 2,489
Restricted For:				
Construction and debt service	-	-	-	3,065
Other purposes	-	11,693	-	1,760
Unrestricted	6,060	42,732	57,029	928
Total Net Assets	<u>\$ 6,060</u>	<u>\$ 54,425</u>	<u>\$ 163,864</u>	<u>\$ 8,241</u>

Michigan

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	STATE BAR OF MICHIGAN	TOTALS
\$ 1,291	\$ 27,583	\$ 1,844	\$ 33,475
-	5,521	-	28,681
-	19,294	-	19,294
4,971	22	-	4,993
-	-	-	6,203
-	-	27	605
-	13,033	3,113	24,554
2,997	7,913	494	11,612
<u>9,259</u>	<u>73,366</u>	<u>5,478</u>	<u>129,417</u>
-	-	-	2,109
-	-	-	2,276
-	1,500	-	1,500
-	14,134	-	20,034
-	38,019	8,138	105,366
-	-	-	20,879
-	100	381	943
376	17,582	11,197	49,351
(77)	(9,212)	(6,874)	(29,198)
-	-	-	102,758
-	-	-	707
<u>298</u>	<u>8,469</u>	<u>4,703</u>	<u>124,560</u>
<u>-</u>	<u>118</u>	<u>99</u>	<u>217</u>
<u>\$ 9,557</u>	<u>\$ 135,607</u>	<u>\$ 18,419</u>	<u>\$ 406,358</u>
\$ -	\$ 1	\$ -	\$ 58
4,338	8,148	1,064	16,458
-	44	-	66
-	114	-	2,373
-	-	-	50
-	-	-	17
2,988	-	1,064	5,035
<u>31</u>	<u>1,491</u>	<u>-</u>	<u>1,754</u>
<u>7,357</u>	<u>9,798</u>	<u>2,127</u>	<u>25,811</u>
-	-	-	1,572
-	-	-	1,715
<u>36</u>	<u>1,015</u>	<u>-</u>	<u>1,420</u>
<u>\$ 7,393</u>	<u>\$ 10,813</u>	<u>\$ 2,127</u>	<u>\$ 30,518</u>
\$ 298	\$ 8,469	\$ 4,703	\$ 122,795
-	-	-	3,065
-	-	-	13,453
1,866	116,324	11,588	236,527
<u>\$ 2,164</u>	<u>\$ 124,794</u>	<u>\$ 16,292</u>	<u>\$ 375,840</u>

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
 FISCAL YEAR ENDED SEPTEMBER 30, 2012
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	
Farm Produce Insurance Authority	\$ 172	\$ -	\$ -	\$ -	\$ (171)
Land Bank Fast Track Authority	17,361	-	49,838	7,142	39,619
Mackinac Bridge Authority	18,835	20,893	-	-	2,058
Mackinac Island State Park Commission	4,783	4,270	229	-	(283)
Michigan Early Childhood Investment Corporation	22,232	-	21,611	-	(621)
Michigan Economic Development Corporation	64,554	-	60,394	-	(4,160)
State Bar of Michigan	11,205	11,703	-	-	498
Total	<u>\$ 139,141</u>	<u>\$ 36,867</u>	<u>\$ 132,072</u>	<u>\$ 7,142</u>	<u>\$ 36,940</u>

GENERAL REVENUES

<u>INTEREST AND INVESTMENT EARNINGS (LOSS)</u>	<u>PAYMENTS FROM STATE OF MICHIGAN</u>	<u>OTHER</u>	<u>CHANGE IN NET ASSETS</u>	<u>NET ASSETS BEGINNING OF YEAR RESTATED</u>	<u>NET ASSETS END OF YEAR</u>
\$ 139	\$ -	\$ -	\$ (32)	\$ 6,092	\$ 6,060
28	-	46	39,693	14,732	54,425
2,707	-	-	4,765	159,098	163,864
53	-	-	(230)	8,471	8,241
3	-	66	(551)	2,716	2,164
4,890	-	4,510	5,240	119,554	124,794
112	-	-	610	15,682	16,292
<u>\$ 7,932</u>	<u>\$ -</u>	<u>\$ 4,622</u>	<u>\$ 49,494</u>	<u>\$ 326,345</u>	<u>\$ 375,840</u>



COMPONENT UNITS – STATE UNIVERSITIES

The State has 13 legally separate public universities, 10 of which are included in this report as component units and 3 of which are excluded. Included are the 10 universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by the Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity. Excluded are those 3 that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The 3 that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, for which local units of government are legally accountable.

The information presented in this report for the 10 universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2012. 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, 2012
(In Thousands)

	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY
ASSETS				
Current Assets:				
Cash	\$ 10,401	\$ 45,703	\$ 52,339	\$ 3,324
Amounts due from primary government	16,805	15,345	41,267	1,996
Amounts due from federal government	2,504	250	3,407	316
Amounts due from local units	-	-	-	-
Inventories	1,218	927	2,660	227
Investments	43,317	39,479	20,009	8,718
Other current assets	15,093	5,446	21,828	1,998
Total Current Assets	<u>89,338</u>	<u>107,150</u>	<u>141,510</u>	<u>16,579</u>
Restricted Assets:				
Cash and cash equivalents	-	-	2,661	-
Investments	17,383	18,695	5,956	-
Mortgages and loans receivable	11,157	17,541	-	-
Mortgages and loans receivable	-	-	8,371	2,593
Investments	43,342	56,593	208,256	14,062
Capital Assets:				
Land and other non-depreciable assets	11,654	6,378	47,574	2,513
Buildings, equipment, and other depreciable assets	734,570	405,770	704,697	144,224
Less accumulated depreciation	(288,893)	(170,195)	(228,823)	(96,116)
Construction in progress	5,490	16,732	55,877	-
Total capital assets	<u>462,821</u>	<u>258,685</u>	<u>579,326</u>	<u>50,621</u>
Other noncurrent assets	<u>2,159</u>	<u>2,457</u>	<u>42,441</u>	<u>580</u>
Total Assets	<u>\$ 626,201</u>	<u>\$ 461,121</u>	<u>\$ 988,521</u>	<u>\$ 84,435</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 41,545	\$ 14,089	\$ 64,886	\$ 1,953
Amounts due to primary government	11	-	101	182
Bonds and notes payable	2,965	4,605	9,300	1,035
Interest payable	2,460	1,263	1,554	258
Deferred revenue	7,486	7,361	12,749	968
Current portion of other long-term obligations	400	305	5,022	487
Total Current Liabilities	<u>54,867</u>	<u>27,622</u>	<u>93,613</u>	<u>4,883</u>
Deferred revenue	-	855	631	-
Bonds and notes payable	231,180	92,075	260,608	22,837
Noncurrent portion of other long-term obligations	<u>61,534</u>	<u>34,854</u>	<u>31,397</u>	<u>2,096</u>
Total Liabilities	<u>\$ 347,581</u>	<u>\$ 155,406</u>	<u>\$ 386,249</u>	<u>\$ 29,816</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 185,758	\$ 153,162	\$ 306,052	\$ 27,341
Restricted For:				
Education	-	7,777	8,621	11,796
Construction and debt service	-	-	51,380	1,704
Other purposes	23,942	-	-	3,047
Funds Held as Permanent Investments:				
Expendable	-	7,789	24,864	-
Nonexpendable	39,307	18,695	41,259	5,268
Unrestricted	<u>29,614</u>	<u>118,291</u>	<u>170,095</u>	<u>5,462</u>
Total Net Assets	<u>\$ 278,620</u>	<u>\$ 305,714</u>	<u>\$ 602,272</u>	<u>\$ 54,619</u>

Michigan

<u>MICHIGAN TECHNOLOGICAL UNIVERSITY</u>	<u>NORTHERN MICHIGAN UNIVERSITY</u>	<u>OAKLAND UNIVERSITY</u>	<u>SAGINAW VALLEY STATE UNIVERSITY</u>	<u>TOTALS</u>
\$ 8,387	\$ 20,103	\$ 37,106	\$ 34,844	\$ 212,208
8,961	10,477	19,982	16,570	131,404
5,619	163	3,749	884	16,892
-	7	-	-	7
1,432	1,415	1,074	3,760	12,714
-	10,680	-	58	122,261
10,157	7,731	11,750	5,469	79,473
<u>34,557</u>	<u>50,577</u>	<u>73,661</u>	<u>61,585</u>	<u>574,958</u>
5,873	-	-	75	8,608
90,298	-	39,022	-	171,353
-	-	1,337	-	30,035
12,207	6,398	-	22	29,590
8,047	105,534	136,445	62,211	634,490
15,347	7,000	4,625	2,506	97,597
400,671	365,571	427,182	438,583	3,621,269
(160,605)	(152,641)	(194,775)	(146,138)	(1,438,185)
3,170	9,441	74,987	5,425	171,122
<u>258,583</u>	<u>229,372</u>	<u>312,019</u>	<u>300,375</u>	<u>2,451,803</u>
<u>9,619</u>	<u>2,619</u>	<u>22,155</u>	<u>5,331</u>	<u>87,360</u>
<u>\$ 419,185</u>	<u>\$ 394,500</u>	<u>\$ 584,640</u>	<u>\$ 429,598</u>	<u>\$ 3,988,199</u>
\$ 8,723	\$ 18,050	\$ 31,983	\$ 18,168	\$ 199,398
443	348	561	-	1,646
2,240	4,010	3,799	5,196	33,150
516	-	960	-	7,010
2,962	4,441	9,998	7,258	53,223
7,086	172	1,099	100	14,671
<u>21,971</u>	<u>27,020</u>	<u>48,401</u>	<u>30,722</u>	<u>309,099</u>
-	-	596	2,093	4,175
82,276	102,313	120,471	116,083	1,027,843
<u>5,996</u>	<u>8,240</u>	<u>22,126</u>	<u>3,906</u>	<u>170,147</u>
<u>\$ 110,243</u>	<u>\$ 137,573</u>	<u>\$ 191,594</u>	<u>\$ 152,803</u>	<u>\$ 1,511,264</u>
\$ 174,527	\$ 121,462	\$ 193,687	\$ 179,663	\$ 1,341,652
58,440	2,755	26,190	6,456	122,034
-	13,196	-	47	66,327
-	-	-	-	26,989
-	25,752	9,113	-	67,518
66,070	3,263	18,726	42,734	235,323
<u>9,905</u>	<u>90,498</u>	<u>145,330</u>	<u>47,896</u>	<u>617,092</u>
<u>\$ 308,942</u>	<u>\$ 256,927</u>	<u>\$ 393,046</u>	<u>\$ 276,795</u>	<u>\$ 2,476,935</u>

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 2012
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS		
Eastern Michigan University	\$ 346,658	\$ 212,124	\$ 16,406	\$ 11,460	\$ (106,668)	
Ferris State University	222,694	153,714	3,518	-	(65,463)	
Grand Valley State University	377,937	281,663	21,104	4,201	(70,969)	
Lake Superior State University	50,347	27,256	10,389	314	(12,389)	
Michigan Technological University	230,074	106,026	64,002	16,520	(43,527)	
Northern Michigan University	156,983	96,233	9,361	165	(51,225)	
Oakland University	264,022	178,785	21,054	4,929	(59,253)	
Saginaw Valley State University	134,643	94,341	7,474	-	(32,828)	
Total	<u>\$ 1,783,359</u>	<u>\$ 1,150,142</u>	<u>\$ 153,307</u>	<u>\$ 37,590</u>	<u>\$ (442,321)</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
\$ (27,689)	\$ 65,570	\$ 38,883	\$ (29,903)	\$ 308,523	\$ 278,620
2,021	45,188	28,612	10,359	295,355	305,714
6,036	52,677	24,792	12,536	589,736	602,272
253	10,741	-	(1,395)	56,014	54,619
2,498	40,734	1,831	1,536	307,406	308,942
1,970	38,358	14,202	3,305	253,621	256,927
2,048	73,572	21,184	37,550	355,495	393,046
(697)	24,015	18,987	9,478	267,317	276,795
<u>\$ (13,559)</u>	<u>\$ 350,855</u>	<u>\$ 148,491</u>	<u>\$ 43,467</u>	<u>\$ 2,433,468</u>	<u>\$ 2,476,935</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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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.

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

(In Thousands)

(Accrual Basis of Accounting)

	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 14,996,945	\$ 14,962,902	\$ 15,245,452	\$ 15,827,600
Restricted	1,886,336	1,993,335	2,086,764	2,064,965
Unrestricted	(652,923)	(960,684)	(932,221)	(1,313,574)
Total governmental activities net assets	<u>\$ 16,230,358</u>	<u>\$ 15,995,554</u>	<u>\$ 16,399,994</u>	<u>\$ 16,578,992</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 581	\$ 566	\$ 582	\$ 412
Restricted	1,765,699	1,164,540	894,513	621,982
Unrestricted	4,295	5,910	6,891	7,827
Total business-type activities net assets	<u>\$ 1,770,575</u>	<u>\$ 1,171,016</u>	<u>\$ 901,986</u>	<u>\$ 630,220</u>
Primary government				
Invested in capital assets, net of related debt	\$ 14,997,525	\$ 14,963,468	\$ 15,246,033	\$ 15,828,012
Restricted	3,652,035	3,157,875	2,981,277	2,686,947
Unrestricted	(648,628)	(954,774)	(925,330)	(1,305,747)
Total primary government net assets	<u>\$ 18,000,933</u>	<u>\$ 17,166,569</u>	<u>\$ 17,301,980</u>	<u>\$ 17,209,212</u>
Reconciliation of net assets				
Beginning net assets	\$ 19,938,749	\$ 18,000,933	\$ 17,166,569	\$ 17,301,980
Restatement of beginning net assets	-	203,870	75,489	188,188
Beginning net assets - restated	<u>19,938,749</u>	<u>18,204,803</u>	<u>17,242,058</u>	<u>17,490,168</u>
Statement of Activities - changes in net assets	(1,937,817)	(1,038,233)	59,922	(692,181)
Change in reporting entity	-	-	-	411,225
Ending net assets	<u>\$ 18,000,933</u>	<u>\$ 17,166,569</u>	<u>\$ 17,301,980</u>	<u>\$ 17,209,212</u>

Michigan

2007	2008	2009	2010	2011	2012
\$ 15,739,094	\$ 15,909,317	\$ 16,313,696	\$ 16,859,070	\$ 17,782,073	\$ 18,198,345
2,292,779	2,599,760	2,577,249	2,691,477	3,552,062	3,394,212
<u>(1,337,824)</u>	<u>(1,868,935)</u>	<u>(3,928,376)</u>	<u>(4,860,007)</u>	<u>(5,325,636)</u>	<u>(5,349,668)</u>
<u>\$ 16,694,049</u>	<u>\$ 16,640,142</u>	<u>\$ 14,962,570</u>	<u>\$ 14,690,540</u>	<u>\$ 16,008,499</u>	<u>\$ 16,242,889</u>
\$ 367	\$ 807	\$ 735	\$ 603	\$ 578	\$ 355
358,712	72,672	137,064	145,056	131,453	1,276,713
4,798	<u>(121,773)</u>	<u>(2,425,221)</u>	<u>(3,163,457)</u>	<u>(2,911,176)</u>	5,926
<u>\$ 363,877</u>	<u>\$ (48,294)</u>	<u>\$ (2,287,423)</u>	<u>\$ (3,017,798)</u>	<u>\$ (2,779,145)</u>	<u>\$ 1,282,994</u>
\$ 15,739,461	\$ 15,910,124	\$ 16,314,431	\$ 16,859,673	\$ 17,782,652	\$ 18,198,700
2,651,490	2,672,432	2,714,313	2,836,533	3,683,515	4,670,926
<u>(1,333,025)</u>	<u>(1,990,708)</u>	<u>(6,353,597)</u>	<u>(8,023,463)</u>	<u>(8,236,812)</u>	<u>(5,343,743)</u>
<u>\$ 17,057,926</u>	<u>\$ 16,591,848</u>	<u>\$ 12,675,147</u>	<u>\$ 11,672,743</u>	<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>
\$ 17,209,212	\$ 17,057,926	\$ 16,591,848	\$ 12,675,147	\$ 11,672,743	\$ 13,229,354
-	<u>(54,373)</u>	<u>(176,594)</u>	-	<u>(5,377)</u>	<u>(2,954)</u>
<u>17,209,212</u>	<u>17,003,554</u>	<u>16,415,254</u>	<u>12,675,147</u>	<u>11,667,366</u>	<u>13,226,400</u>
<u>(575,518)</u>	<u>(495,759)</u>	<u>(3,757,816)</u>	<u>(1,002,404)</u>	<u>1,561,989</u>	<u>4,299,483</u>
<u>424,232</u>	<u>84,053</u>	<u>17,709</u>	-	-	-
<u>\$ 17,057,926</u>	<u>\$ 16,591,848</u>	<u>\$ 12,675,147</u>	<u>\$ 11,672,743</u>	<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>

Michigan

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

(In Thousands)

(Accrual Basis of Accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 1,714,827	\$ 1,748,598	\$ 1,877,410	\$ 2,289,294
Education	14,839,951	14,418,940	14,531,388	14,695,186
Human services	3,891,686	3,985,861	4,154,811	4,384,311
Public safety and corrections	2,159,537	2,256,393	2,320,406	2,541,630
Conservation, environment, recreation, and agriculture	612,638	674,387	652,326	688,407
Labor, commerce, and regulatory	901,562	920,056	936,467	951,519
Health services	9,362,895	9,605,216	10,179,705	9,963,373
Transportation	2,792,752	3,104,841	3,106,993	3,133,137
Tax credits (Note 16)	707,800	702,700	815,300	834,000
Intergovernmental-revenue sharing	1,451,374	1,305,146	1,112,931	1,103,625
Interest on long-term debt	281,408	246,992	287,519	293,128
Total governmental activities	<u>38,716,430</u>	<u>38,969,130</u>	<u>39,975,258</u>	<u>40,877,610</u>
Business-type activities:				
Liquor Purchase Revolving Fund	515,243	544,683	557,377	582,982
State Lottery Fund	1,152,760	1,391,385	1,447,285	1,584,186
Attorney Discipline System	-	4,056	3,856	4,122
Michigan Unemployment Compensation Funds	2,473,817	2,349,400	1,892,486	1,990,197
Total business-type activities	<u>4,141,820</u>	<u>4,289,524</u>	<u>3,901,003</u>	<u>4,161,487</u>
Total primary government expenses	<u>\$ 42,858,249</u>	<u>\$ 43,258,653</u>	<u>\$ 43,876,261</u>	<u>\$ 45,039,097</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 744,322	\$ 911,721	\$ 983,124	\$ 1,087,877
Education	14,030	5,277	4,858	9,306
Human services	49,917	58,170	53,400	56,367
Public safety and corrections	111,843	154,440	155,683	160,829
Conservation, environment, recreation, and agriculture	236,157	254,861	269,035	251,591
Labor, commerce, and regulatory	252,982	247,857	238,229	262,021
Health services	229,826	57,071	72,062	72,564
Transportation	217,466	197,125	201,598	84,280
Operating grants and contributions	11,290,702	11,783,472	11,792,127	11,623,141
Capital grants and contributions	546,713	618,445	805,580	779,269
Total governmental activities program revenues	<u>\$ 13,693,957</u>	<u>\$ 14,288,438</u>	<u>\$ 14,575,696</u>	<u>\$ 14,387,246</u>
Business-type activities:				
Charges for services:				
Liquor Purchase Revolving Fund	\$ 638,170	\$ 675,747	\$ 688,928	\$ 718,085
State Lottery Fund	1,700,313	2,002,688	2,082,229	2,232,204
Attorney Discipline System	-	4,593	4,588	4,631
Michigan Unemployment Compensation Funds	1,701,364	1,817,576	1,646,311	1,727,761
Operating grants and contributions	135,116	76,762	54,148	53,932
Total business-type activities program revenues	<u>4,174,964</u>	<u>4,577,366</u>	<u>4,476,205</u>	<u>4,736,614</u>
Total primary government program revenues	<u>\$ 17,868,922</u>	<u>\$ 18,865,804</u>	<u>\$ 19,051,901</u>	<u>\$ 19,123,860</u>
Net (Expenses)/Revenues				
Governmental activities	\$ (25,022,472)	\$ (24,680,692)	\$ (25,399,562)	\$ (26,490,364)
Business-type activities	33,144	287,843	575,202	575,127
Total primary government net expenses	<u>\$ (24,989,328)</u>	<u>\$ (24,392,849)</u>	<u>\$ (24,824,360)</u>	<u>\$ (25,915,237)</u>

Michigan

2007	2008	2009	2010	2011	2012
\$ 2,205,613	\$ 1,671,584	\$ 1,753,403	\$ 1,752,504	\$ 2,286,436	\$ 2,491,270
14,660,163	15,080,883	15,251,821	14,989,964	15,269,638	14,601,171
4,453,497	4,699,046	5,410,078	6,136,852	6,423,345	5,953,946
2,583,916	2,895,133	2,994,466	2,859,301	2,863,890	2,816,575
596,972	572,755	617,768	577,952	575,118	657,527
963,444	995,714	1,187,368	1,261,908	1,178,970	956,357
10,832,862	11,622,966	12,334,951	13,250,231	13,917,219	13,722,762
3,191,784	3,235,394	3,244,824	2,947,845	2,460,553	2,840,961
883,400	931,600	963,500	1,351,500	1,271,900	1,226,300
1,071,104	1,076,445	1,040,031	994,196	1,091,527	1,032,243
304,702	318,654	350,421	362,626	217,014	196,040
<u>41,747,457</u>	<u>43,100,174</u>	<u>45,148,632</u>	<u>46,484,880</u>	<u>47,555,610</u>	<u>46,495,152</u>
602,280	621,991	633,093	634,925	660,861	696,723
1,654,823	1,636,858	1,710,718	1,676,994	1,631,489	1,654,234
4,282	4,976	5,026	4,733	4,941	4,818
<u>2,012,082</u>	<u>2,403,043</u>	<u>6,215,392</u>	<u>6,803,393</u>	<u>4,350,158</u>	<u>2,991,500</u>
<u>4,273,467</u>	<u>4,666,868</u>	<u>8,564,229</u>	<u>9,120,044</u>	<u>6,647,450</u>	<u>5,347,275</u>
<u>\$ 46,020,924</u>	<u>\$ 47,767,042</u>	<u>\$ 53,712,861</u>	<u>\$ 55,604,924</u>	<u>\$ 54,203,060</u>	<u>\$ 51,842,428</u>
\$ 1,195,965	\$ 737,401	\$ 768,411	\$ 775,018	\$ 790,054	\$ 844,661
10,377	6,616	5,790	5,320	5,491	15,688
59,285	57,963	46,903	38,797	34,810	69,219
164,345	168,789	157,751	168,141	166,034	158,707
185,978	282,008	254,128	360,261	266,062	269,307
312,983	304,145	306,657	313,368	316,941	548,543
72,338	79,683	84,647	72,036	90,558	59,850
79,459	72,651	69,685	75,466	92,045	91,690
12,295,825	12,956,983	16,755,408	19,150,043	19,608,970	17,373,332
627,057	719,518	921,847	964,605	1,061,715	845,873
<u>\$ 15,003,612</u>	<u>\$ 15,385,756</u>	<u>\$ 19,371,229</u>	<u>\$ 21,923,056</u>	<u>\$ 22,432,679</u>	<u>\$ 20,276,870</u>
\$ 742,959	\$ 768,085	\$ 781,896	\$ 780,265	\$ 812,140	\$ 856,717
2,363,001	2,351,082	2,398,995	2,379,975	2,357,417	2,430,281
4,782	4,885	4,943	4,977	5,114	5,166
1,765,871	1,998,292	3,922,144	6,012,375	4,441,664	3,529,515
55,783	44,262	104,154	79,966	172,038	251,786
<u>4,932,397</u>	<u>5,166,606</u>	<u>7,212,131</u>	<u>9,257,558</u>	<u>7,788,373</u>	<u>7,073,466</u>
<u>\$ 19,936,008</u>	<u>\$ 20,552,362</u>	<u>\$ 26,583,360</u>	<u>\$ 31,180,614</u>	<u>\$ 30,221,052</u>	<u>\$ 27,350,336</u>
\$ (26,743,845)	\$ (27,714,418)	\$ (25,777,403)	\$ (24,561,824)	\$ (25,122,932)	\$ (26,218,282)
658,929	499,738	(1,352,097)	137,514	1,140,924	1,726,190
<u>\$ (26,084,916)</u>	<u>\$ (27,214,680)</u>	<u>\$ (27,129,501)</u>	<u>\$ (24,424,311)</u>	<u>\$ (23,982,008)</u>	<u>\$ (24,492,092)</u>

CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS (Continued)

(In Thousands)

(Accrual Basis of Accounting)

	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
General:				
Sales and use	\$ 2,475,020	\$ 2,565,865	\$ 2,663,226	\$ 2,665,614
Personal income	4,569,230	4,693,512	5,036,282	5,123,885
Single business, Michigan business, and corporate income	1,824,292	1,773,325	1,934,003	1,926,884
Tobacco products	403,696	508,086	712,218	690,234
Beer, wine, and liquor	112,895	116,405	117,990	119,429
Insurance company	231,076	230,272	250,966	218,104
Quality assurance assessment	-	325,188	509,857	676,923
Penalties and interest	128,697	104,432	173,290	146,807
Other	388,810	355,861	444,732	337,920
Restricted For Educational Purposes:				
Sales and use	5,081,189	5,143,414	5,283,583	5,240,334
Personal income	1,816,390	1,896,860	2,019,932	2,069,435
Michigan business	-	-	-	-
Education, property, and real estate transfers	2,408,728	2,142,706	2,236,159	2,320,578
Tobacco products	490,773	485,101	471,734	466,985
Beer, wine, and liquor	30,588	32,286	33,169	34,212
Casino Gaming Wagering	90,945	95,781	97,609	104,069
Other	179,652	162,129	151,918	154,173
Restricted For Transportation Purposes:				
Sales and use	79,440	64,960	56,924	66,405
Gasoline and diesel fuel	1,089,558	1,070,488	1,068,565	1,054,766
Motor vehicle weight	844,695	933,822	863,367	867,663
Other	7,402	7,721	6,719	5,974
Unrestricted investment and interest earnings	14,132	9,728	14,141	9,991
Miscellaneous	739,966	592,700	681,837	1,281,229
Contributions to permanent fund principal	31,938	30,759	41,033	35,153
Transfers	843,762	901,580	859,260	864,406
Total governmental activities	<u>\$ 23,882,874</u>	<u>\$ 24,242,982</u>	<u>\$ 25,728,514</u>	<u>\$ 26,481,174</u>
Business-type activities:				
Taxes	11,297	11,989	12,194	12,654
Investment earnings	1,102	1,225	2,784	4,861
Miscellaneous	-	-	50	-
Transfers	(843,762)	(901,580)	(859,260)	(864,406)
Total business-type activities	<u>(831,363)</u>	<u>(888,366)</u>	<u>(844,232)</u>	<u>(846,892)</u>
Total primary government	<u>\$ 23,051,511</u>	<u>\$ 23,354,616</u>	<u>\$ 24,884,282</u>	<u>\$ 25,634,282</u>
Changes in Net Assets				
Governmental activities	\$ (1,139,599)	\$ (437,710)	\$ 328,952	\$ (9,190)
Business-type activities	(798,218)	(600,524)	(269,030)	(271,766)
Total primary government	<u>\$ (1,937,817)</u>	<u>\$ (1,038,233)</u>	<u>\$ 59,922</u>	<u>\$ (280,956)</u>

NOTES: Beginning in fiscal year 2009, the State began reporting tobacco products tax revenue separately rather than included in other.

Beginning in fiscal year 2009, the State began reporting quality assurance assessment tax revenue separately rather than included in other. Amounts for years prior to 2004 are not available.

In prior years, a portion of the Michigan Business Tax was restricted for educational purposes. Tax law changes enacted during fiscal year 2012 eliminated that restriction.

Michigan

	2007	2008	2009	2010	2011	2012
\$	2,635,341	\$ 2,701,052	\$ 2,439,220	\$ 2,651,757	\$ 2,784,245	\$ 2,735,674
	5,321,169	6,229,339	4,639,740	4,931,508	5,822,443	6,119,213
	1,771,854	1,715,861	1,372,597	1,107,589	1,456,727	1,294,287
	678,826	652,609	631,339	612,414	593,462	586,108
	123,592	126,040	126,475	126,269	128,574	133,276
	223,753	223,398	261,006	257,359	271,198	290,383
	832,562	1,026,698	858,512	845,612	884,412	955,029
	155,789	167,297	145,675	135,939	132,724	163,496
	334,097	320,484	244,166	239,425	239,306	412,904
	5,230,217	5,424,253	4,848,489	5,006,696	5,399,478	5,515,083
	2,142,251	2,174,393	1,855,533	1,756,587	1,999,556	2,121,630
	-	341,000	669,341	604,395	611,433	-
	2,336,474	2,266,377	2,163,883	2,047,056	2,015,369	1,939,493
	449,912	427,303	410,590	392,113	377,288	371,774
	35,730	37,120	37,717	37,476	39,165	41,065
	106,681	112,067	108,080	101,816	114,017	115,753
	154,917	101,666	55,764	74,083	66,231	59,568
	67,678	82,114	82,887	76,778	90,025	98,101
	1,016,957	992,502	970,794	956,999	959,479	940,099
	874,287	854,736	839,648	841,840	859,783	875,952
	6,339	5,675	5,591	5,188	5,621	5,027
	12,097	7,595	4,911	1,464	696	710
	1,378,751	739,602	568,855	495,556	648,297	659,801
	26,165	57,937	30,091	101,587	28,773	20,359
	943,460	927,763	905,523	882,287	917,966	1,000,841
\$	<u>26,858,903</u>	<u>\$ 27,714,884</u>	<u>\$ 24,276,425</u>	<u>\$ 24,289,795</u>	<u>\$ 26,446,268</u>	<u>\$ 26,455,626</u>
	13,133	13,663	14,093	14,107	14,855	15,737
	5,055	2,192	763	276	191	139
	-	-	3,636	16	649	3,320,915
	(943,460)	(927,763)	(905,523)	(882,287)	(917,966)	(1,000,841)
	<u>(925,273)</u>	<u>(911,909)</u>	<u>(887,031)</u>	<u>(867,889)</u>	<u>(902,271)</u>	<u>2,335,949</u>
\$	<u>25,933,630</u>	<u>\$ 26,802,975</u>	<u>\$ 23,389,393</u>	<u>\$ 23,421,906</u>	<u>\$ 25,543,997</u>	<u>\$ 28,791,575</u>
\$	115,057	\$ 466	\$ (1,500,979)	\$ (272,029)	\$ 1,323,336	\$ 237,344
	(266,343)	(412,171)	(2,239,129)	(730,375)	238,653	4,062,139
\$	<u>(151,286)</u>	<u>\$ (411,705)</u>	<u>\$ (3,740,107)</u>	<u>\$ (1,002,404)</u>	<u>\$ 1,561,989</u>	<u>\$ 4,299,483</u>

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

(In Thousands)

(Modified Accrual Basis of Accounting)

	2003	2004	2005	2006
General Fund				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All Other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Fund				
Reserved	\$ 1,136,802	\$ 1,169,819	\$ 1,232,856	\$ 1,066,757
Unreserved	173,956	-	220,537	2,482
Total general fund	<u>\$ 1,310,758</u>	<u>\$ 1,169,819</u>	<u>\$ 1,453,393</u>	<u>\$ 1,069,240</u>
All Other Governmental Funds				
Reserved	\$ 1,445,064	\$ 1,665,549	\$ 1,759,462	\$ 1,657,248
Unreserved, reported in:				
Special revenue funds	571,164	537,917	303,226	779,910
Debt service funds	369,313	365,841	194,586	189,851
Capital projects funds	(436,623)	(451,060)	(349,643)	(87,918)
Permanent funds	34,719	42,778	43,259	43,791
Total all other governmental funds	<u>\$ 1,983,637</u>	<u>\$ 2,161,025</u>	<u>\$ 1,950,891</u>	<u>\$ 2,582,883</u>
Reconciliation of governmental fund balances				
Beginning fund balances	\$ 4,476,125	\$ 3,294,395	\$ 3,330,844	\$ 3,404,284
Restatement of beginning fund balances	(255,500)	-	-	-
Beginning fund balances - restated	4,220,625	3,294,395	3,330,844	3,404,284
Excess of revenues and other sources over (under) expenditures and other uses	(926,230)	36,449	73,440	336,067
Change in accounting entity	-	-	-	(88,228)
Ending fund balances	<u>\$ 3,294,395</u>	<u>\$ 3,330,844</u>	<u>\$ 3,404,284</u>	<u>\$ 3,652,123</u>

NOTE: Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing Governmental Accounting Standards Board Statement No. 54. Fund balance has not been restated for prior years.

Michigan

2007	2008	2009	2010	2011	2012
\$ -	\$ -	\$ -	\$ -	\$ 267,289	\$ 237,955
-	-	-	-	351,551	364,497
-	-	-	-	463,685	805,402
-	-	-	-	67,021	68,583
-	-	-	-	553,746	979,205
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,703,292</u>	<u>\$ 2,455,642</u>
\$ -	\$ -	\$ -	\$ -	\$ 929,077	\$ 951,453
-	-	-	-	2,269,086	2,086,927
-	-	-	-	137,910	196,931
-	-	-	-	(41,126)	(144,804)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,294,948</u>	<u>\$ 3,090,508</u>
\$ 722,948	\$ 833,104	\$ 794,464	\$ 828,553	\$ -	\$ -
259,080	457,870	177,244	187,220	-	-
<u>\$ 982,028</u>	<u>\$ 1,290,974</u>	<u>\$ 971,708</u>	<u>\$ 1,015,773</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,945,448	\$ 1,968,781	\$ 1,941,203	\$ 2,048,256	\$ -	\$ -
689,356	483,130	605,513	379,140	-	-
208,868	220,517	207,916	222,322	-	-
(239,869)	(238,718)	(182,786)	(161,980)	-	-
41,361	54,791	40,473	75,486	-	-
<u>\$ 2,645,164</u>	<u>\$ 2,488,501</u>	<u>\$ 2,612,318</u>	<u>\$ 2,563,224</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,652,123	\$ 3,627,192	\$ 3,779,475	\$ 3,584,026	\$ 3,578,997	\$ 4,998,240
-	-	-	-	-	(15,602)
3,652,123	3,627,192	3,779,475	3,584,026	3,578,997	4,982,638
35,653	131,789	(220,414)	(5,029)	1,419,243	563,512
(60,583)	20,494	24,965	-	-	-
<u>\$ 3,627,192</u>	<u>\$ 3,779,475</u>	<u>\$ 3,584,026</u>	<u>\$ 3,578,997</u>	<u>\$ 4,998,240</u>	<u>\$ 5,546,150</u>

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

(In Thousands)

(Modified Accrual Basis of Accounting)

	2003	2004	2005	2006
Revenues				
Taxes	\$ 22,425,957	\$ 22,799,928	\$ 23,936,964	\$ 24,198,924
From federal agencies	10,813,804	11,580,220	11,974,006	12,160,022
From local agencies	230,728	239,815	262,875	124,101
From services	121,198	148,140	264,956	269,593
From licenses and permits	417,786	555,858	423,501	437,560
Special Medicaid reimbursements	932,658	704,551	467,970	93,621
Miscellaneous	1,467,812	1,205,367	1,475,377	1,948,214
Total revenues	<u>36,409,943</u>	<u>37,233,878</u>	<u>38,805,648</u>	<u>39,232,034</u>
Expenditures				
General government	1,209,916	1,117,659	1,307,448	1,631,483
Education	14,866,526	14,445,184	14,557,032	14,758,992
Human services	3,877,953	3,935,170	4,122,779	4,341,774
Public safety and corrections	2,115,448	2,121,584	2,287,452	2,455,145
Conservation, environment, recreation, and agriculture	591,218	586,096	614,939	642,815
Labor, commerce, and regulatory	891,644	902,903	924,876	952,921
Health services	9,270,484	9,676,268	10,126,544	9,958,104
Transportation	2,080,361	2,212,371	2,167,888	2,082,847
Tax credits	707,800	702,700	815,300	834,000
Capital outlay	1,164,002	1,100,106	1,274,247	1,462,405
Intergovernmental - revenue sharing	1,451,374	1,305,146	1,112,931	1,103,625
Debt service:				
Bond principal retirement	222,477	729,557	354,711	773,826
Bond interest and fiscal charges	239,054	241,194	276,216	294,093
Capital lease payments	67,723	50,840	49,530	49,183
Total expenditures	<u>38,755,981</u>	<u>39,126,778</u>	<u>39,991,894</u>	<u>41,341,213</u>
Excess of revenues over (under) expenditures	(2,346,038)	(1,892,901)	(1,186,245)	(2,109,179)
Other Financing Sources (Uses)				
Bonds and notes issued	568,616	520,676	365,164	963,105
Refunding bonds issued	692,694	660,249	1,528,539	1,494,050
Premium on bond issuance	87,561	55,940	97,857	46,234
Discount on bond issuance	-	-	-	(496,444)
Payment to refunded bond escrow agent	(851,235)	(247,256)	(1,609,886)	(563,776)
Capital lease acquisitions	16,052	19,661	6,778	34,059
Proceeds from sale of capital assets	-	17,236	10,643	13,974
Transfers from other funds	3,433,535	3,294,939	2,924,083	2,736,772
Transfers to other funds	(2,527,415)	(2,392,095)	(2,063,492)	(1,870,956)
Total other financing sources (uses)	<u>1,419,808</u>	<u>1,929,350</u>	<u>1,259,686</u>	<u>2,357,018</u>
Net change in fund balances	<u>\$ (926,230)</u>	<u>\$ 36,449</u>	<u>\$ 73,440</u>	<u>\$ 247,839</u>
Debt service as a percentage of noncapital expenditures	1%	3%	2%	3%

Michigan

2007	2008	2009	2010	2011	2012
\$ 24,370,884	\$ 26,075,135	\$ 23,348,354	\$ 23,174,824	\$ 24,691,957	\$ 24,769,943
12,655,930	13,432,638	17,377,416	19,832,846	20,401,399	17,830,166
139,429	126,550	118,190	106,172	102,979	102,776
284,370	291,380	288,877	300,992	321,799	314,059
444,841	441,407	454,981	458,303	464,756	481,994
102,670	115,797	135,667	123,205	155,059	186,194
2,271,059	1,667,798	1,524,220	1,575,643	1,523,221	1,896,663
<u>40,269,182</u>	<u>42,150,705</u>	<u>43,247,704</u>	<u>45,571,986</u>	<u>47,661,170</u>	<u>45,581,795</u>
1,590,733	1,553,671	1,587,314	1,464,412	1,857,989	1,937,876
14,664,715	15,094,266	15,249,946	15,051,983	15,297,255	14,636,439
4,447,992	4,609,481	5,334,263	6,042,987	6,346,672	5,886,563
2,467,512	2,617,048	2,591,858	2,573,093	2,549,993	2,567,504
568,398	597,267	557,602	546,510	516,098	582,955
957,023	966,091	1,145,954	1,223,197	1,143,962	923,059
10,741,285	11,588,207	12,450,287	13,218,598	13,905,003	13,698,746
2,178,923	2,338,907	2,195,721	2,279,890	2,069,572	2,149,628
883,400	931,600	963,500	1,351,500	1,271,900	1,226,300
1,376,891	1,234,427	1,279,372	1,322,304	1,169,458	1,045,060
1,071,104	1,076,445	1,040,031	994,196	1,091,527	1,032,243
238,789	228,261	215,380	247,532	231,577	342,241
295,878	285,333	341,194	316,163	311,955	346,861
46,074	50,176	50,107	50,982	56,146	56,327
<u>41,528,716</u>	<u>43,171,179</u>	<u>45,002,530</u>	<u>46,683,346</u>	<u>47,819,108</u>	<u>46,431,804</u>
(1,259,534)	(1,020,474)	(1,754,825)	(1,111,361)	(157,938)	(850,008)
485,115	121,500	601,500	177,480	474,278	360,260
-	208,780	775,640	142,190	543,367	163,035
18,662	16,811	10,748	10,569	12,216	22,071
-	-	(4,263)	-	(150)	(1,339)
(240,280)	(223,319)	(777,179)	(150,488)	(549,296)	(172,223)
20,906	110,838	41,205	39,101	172,111	34,567
5,347	30,505	3,027	1,895	1,797	3,160
2,826,854	2,697,131	2,603,766	2,834,719	2,616,900	2,956,635
(1,882,002)	(1,789,489)	(1,695,068)	(1,949,134)	(1,694,043)	(1,952,646)
<u>1,234,604</u>	<u>1,172,757</u>	<u>1,559,376</u>	<u>1,106,331</u>	<u>1,577,181</u>	<u>1,413,520</u>
\$ (24,930)	\$ 152,283	\$ (195,449)	\$ (5,029)	\$ 1,419,243	\$ 563,512
1%	1%	1%	1%	1%	2%

PERSONAL INCOME BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2002	2003	2004
Farm earnings	\$ 549	\$ 704	\$ 1,030
Forestry, fishing, and related activities	282	276	307
Mining	611	654	736
Utilities	2,046	2,193	2,156
Construction	14,890	14,719	15,186
Manufacturing	51,156	56,423	54,367
Wholesale trade	11,296	11,571	11,898
Retail trade	15,660	15,985	16,222
Transportation and warehousing	6,682	6,772	7,115
Information	4,458	4,569	4,745
Finance and insurance	10,901	11,524	11,649
Real estate and rental and leasing	6,834	5,785	5,987
Professional, scientific, and technical services	22,569	22,062	22,596
Management of companies and enterprises	6,349	6,684	7,190
Administrative and waste services	9,387	9,902	10,365
Educational services	1,720	1,906	2,194
Health care and social assistance	21,514	22,761	24,104
Arts, entertainment, and recreation	2,130	2,163	2,299
Accommodation and food services	5,470	5,624	5,931
Other services, except public administration	8,250	8,494	8,656
Government and government enterprises	32,137	33,338	34,805
Total earnings by place of work	234,891	244,108	249,534
Total earnings by place of work	234,891	244,108	249,534
less: Contributions for government social insurance	27,047	27,479	28,302
plus: Adjustment for residence	1,192	1,251	1,337
Net earnings by place of residence	209,036	217,880	222,569
Net earnings by place of residence	209,036	217,880	222,569
plus: Dividends, interest, and rent	47,523	46,542	47,316
plus: Personal current transfer receipts	44,937	46,268	48,784
Total Personal Income	\$ 301,496	\$ 310,689	\$ 318,669
Statutory Tax Rate (blended rate)	4.13%	4.03%	3.98%

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

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

Industries categorized using the North American Industry Classification System.

Fiscal year 2011 is the most recent year for which data is available.

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

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

Michigan

2005	2006	2007	2008	2009	2010	2011
\$ 1,109	\$ 1,076	\$ 1,162	\$ 1,752	\$ 1,409	\$ 1,698	\$ 2,615
282	339	323	305	321	385	400
792	900	852	1,089	738	690	843
2,253	2,473	2,618	2,745	2,727	2,709	2,782
15,605	15,567	14,534	12,899	10,804	10,268	10,779
50,205	49,582	48,442	46,206	37,635	36,788	40,596
12,386	12,661	13,115	13,399	12,306	12,170	13,101
16,264	16,056	16,150	15,837	15,191	15,214	15,521
7,397	7,291	7,453	7,265	6,728	6,738	7,294
4,679	4,644	4,739	4,649	4,443	4,243	4,345
12,156	12,676	12,878	12,048	11,546	11,989	12,615
6,415	5,757	4,638	3,098	2,693	2,708	2,904
23,479	24,275	25,149	25,960	23,059	22,382	24,115
7,282	6,827	6,939	6,803	6,002	5,840	6,588
11,382	11,669	11,397	11,342	10,296	10,455	11,492
2,280	2,403	2,540	2,649	2,750	2,777	2,823
25,426	26,832	28,050	29,676	30,531	31,183	32,181
2,245	2,374	2,262	2,294	2,100	2,071	1,973
6,028	6,005	6,491	6,520	6,166	6,327	6,695
8,930	9,030	9,114	8,801	8,608	8,831	9,145
36,719	37,220	38,081	39,069	40,113	40,884	40,289
<u>253,313</u>	<u>255,652</u>	<u>256,921</u>	<u>254,401</u>	<u>236,162</u>	<u>236,348</u>	<u>249,093</u>
253,313	255,652	256,921	254,401	236,162	236,348	249,093
29,237	30,013	30,628	30,799	29,222	28,953	27,613
1,422	1,517	1,587	1,560	1,506	1,570	1,729
<u>225,498</u>	<u>227,156</u>	<u>227,881</u>	<u>225,163</u>	<u>208,445</u>	<u>208,966</u>	<u>223,210</u>
225,498	227,156	227,881	225,163	208,445	208,966	223,210
47,681	50,644	54,575	60,214	50,259	45,375	48,685
51,397	54,898	59,546	65,468	74,759	80,738	81,920
<u>\$ 324,576</u>	<u>\$ 332,698</u>	<u>\$ 342,003</u>	<u>\$ 350,844</u>	<u>\$ 333,463</u>	<u>\$ 335,078</u>	<u>\$ 353,814</u>
3.90%	3.90%	3.90%	4.35%	4.35%	4.35%	4.35%

Michigan

TAXABLE SALES BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2002	2003	2004	2005
Farming	\$ 80.8	\$ 77.8	\$ 77.2	\$ 78.9
Agricultural	243.3	275.3	275.3	277.5
Mining	173.8	174.6	159.9	181.0
Construction	778.8	741.5	768.8	788.3
Manufacturing	3,486.9	3,225.4	3,315.5	3,577.2
Transportation and utilities	8,632.8	9,030.7	9,369.3	10,359.4
Wholesale trade	2,970.7	3,121.5	3,127.9	3,270.5
Retail trade	82,580.9	82,417.6	83,135.4	84,719.4
Finance, insurance, and real estate	718.1	622.2	472.3	460.8
Services	8,276.9	8,077.5	7,686.8	7,121.3
State and local government	155.6	150.9	162.0	184.3
Other classifications	707.6	614.2	951.9	1,021.3
Total	\$ 108,806.2	\$ 108,529.3	\$ 109,502.2	\$ 112,040.0
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 2011 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

2006	2007	2008	2009	2010	2011
\$ 78.5	\$ 73.6	\$ 70.4	\$ 57.1	\$ 56.1	\$ 58.5
270.7	250.3	240.4	226.6	211.8	216.2
192.5	183.4	180.2	118.8	116.2	145.7
782.3	706.4	695.9	565.0	497.3	534.1
3,424.2	3,283.3	3,331.8	2,608.5	2,645.7	2,738.4
11,715.5	12,091.0	12,650.3	12,708.7	12,041.1	12,860.4
3,400.5	2,881.0	3,031.4	2,516.5	2,426.9	2,861.1
83,382.5	83,464.8	86,572.7	78,680.5	80,195.7	85,484.6
435.6	333.3	323.9	356.8	193.0	254.6
6,215.0	6,483.1	6,426.7	5,696.8	5,405.8	5,831.0
197.7	202.6	166.7	154.6	240.0	93.3
806.4	1,091.1	943.9	1,802.9	1,007.5	1,048.7
<u>\$ 110,901.4</u>	<u>\$ 111,043.7</u>	<u>\$ 114,634.3</u>	<u>\$ 105,492.7</u>	<u>\$ 105,036.9</u>	<u>\$ 112,126.5</u>
6%	6%	6%	6%	6%	6%

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL
TAX YEARS 2001 AND 2010

Adjusted Gross Income (AGI) Group	Tax Year 2001				Tax Year 2010			
	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	3,016,406	67.7%	\$ 983	16.9%	2,929,201	65.7%	\$ 86	1.6%
\$50,001 - \$100,000	1,039,717	23.3%	2,244	38.6%	998,141	22.4%	1,913	36.3%
\$100,001 and higher	399,908	9.0%	2,591	44.5%	532,591	11.9%	3,267	62.0%
Total	4,456,031	100.0%	\$ 5,818	100.0%	4,459,933	100.0%	\$ 5,265	100.0%

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 2010 is the most recent year for which data is available.

Tax year 2001 personal income tax amount refers to tax amounts net of nonrefundable credits, and net of Home Heating Credits (HHC) and Homestead Property Tax Credits (HPTC).

Tax year 2010 personal income tax amount refers to tax amount net of nonrefundable credits, and net of HHC, HPTC, Michigan Earned Income Tax, Farmland Preservation, Adoption, Stillbirth, and Energy Efficient Qualified Home Improvement Credits.

SOURCE: Michigan Department of Treasury.

SALES TAX PAYERS BY INDUSTRY

FISCAL YEARS 2002 AND 2011

	2002				2011			
	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	538	0.50%	\$ 4.7	0.07%	528	0.53%	\$ 3.5	0.05%
Agricultural	1,615	1.51%	14.5	0.23%	1,512	1.51%	13.0	0.20%
Mining	299	0.28%	10.4	0.16%	279	0.28%	8.7	0.13%
Construction	2,573	2.41%	46.7	0.73%	2,386	2.39%	32.0	0.49%
Manufacturing	6,259	5.86%	209.2	3.26%	6,012	6.01%	164.3	2.50%
Transportation and utilities	1,421	1.33%	413.8	6.44%	1,219	1.22%	616.6	9.38%
Wholesale trade	2,473	2.32%	178.2	2.77%	2,324	2.32%	171.7	2.61%
Retail trade	65,284	61.16%	4,954.9	77.13%	61,373	61.36%	5,129.1	78.05%
Finance, insurance, and real estate	453	0.42%	43.1	0.67%	386	0.39%	15.3	0.23%
Services	24,759	23.19%	496.6	7.73%	23,177	23.17%	349.9	5.32%
State and local government	317	0.30%	9.4	0.15%	288	0.29%	5.6	0.09%
Other classifications	758	0.71%	42.7	0.66%	533	0.53%	62.1	0.95%
Total	106,749	100.00%	\$ 6,424.3	100.00%	100,017	100.00%	\$ 6,571.8	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 2011 is the most recent year for which data is available.

Industries categorized using the Standard Industrial Classification.

SOURCE: Michigan Department of Treasury.

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(In Millions)

<u>FISCAL YEAR</u>	GOVERNMENTAL ACTIVITIES			
	GENERAL OBLIGATION BONDS	STATE PARK REVENUE BONDS	MUSTFA REVENUE BONDS	TRANSPORTATION REVENUE BONDS
2003	\$ 1,413	\$ 16	\$ 122	\$ 1,176
2004	1,528	15	105	1,323
2005	1,645	15	-	1,652
2006	1,794	14	-	1,889
2007	1,488	13	-	2,328
2008	1,487	13	-	2,257
2009	1,673	12	-	2,474
2010	1,680	12	-	2,369
2011	1,889	11	-	2,261
2012	2,018	10	-	2,226

NOTES: Article 9, Section 15 of the State Constitution allows for long-term borrowing by the State for specific purposes in amounts as may be provided by acts of the Legislature adopted by a vote of two-thirds of the members in each house, and approved by a majority of the bodies 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 Technology, Management and Budget.
 U.S. Department of Commerce, Bureau of Economic Analysis.
 Department of Treasury.

GOVERNMENTAL ACTIVITIES				
STATE BUILDING AUTHORITY BONDS	CAPITAL LEASES	TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
\$ 2,607	\$ 479	\$ 5,813	1.85%	\$ 579
2,545	423	5,939	1.86%	591
2,615	406	6,333	1.94%	630
3,449	252	7,398	2.21%	737
3,366	248	7,443	2.16%	744
3,375	320	7,452	2.12%	789
2,969	330	7,458	2.27%	753
3,008	345	7,414	2.19%	751
3,175	407	7,743	2.16%	784
3,103	416	7,773	Unavailable	Unavailable



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

<u>FISCAL YEAR</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED GENERAL OBLIGATION BONDS</u>	<u>PERCENTAGE OF PERSONAL INCOME</u>	<u>PER CAPITA</u>
2003	\$ 1,413	\$ 1	\$ 1,412	0.45%	\$ 141
2004	1,528	1	1,526	0.48%	152
2005	1,645	1	1,644	0.50%	164
2006	1,794	1	1,793	0.54%	179
2007	1,487	1	1,486	0.43%	149
2008	1,487	1	1,486	0.42%	149
2009	1,673	1	1,672	0.51%	169
2010	1,680	1	1,678	0.49%	170
2011	1,889	1	1,888	0.53%	191
2012	2,018	1	2,017	Unavailable	Unavailable

SOURCES: U.S. Census Bureau, Population Division.
 Department of Technology, Management and Budget.
 U.S. Department of Commerce, Bureau of Economic Analysis.
 Department of Treasury.

Michigan

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

	2003	2004	2005	2006
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3
Registration Taxes	844.7	933.8	863.4	867.7
Miscellaneous Fees	56.7	51.4	37.3	36.0
Total	1,994.5	2,058.4	1,969.8	1,959.0
Less Deductions	176.8	110.9	125.4	149.5
Remaining Balance	1,817.8	1,947.6	1,844.4	1,809.5
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>162.3</u>	<u>166.4</u>	<u>167.3</u>	<u>165.4</u>
 Motor Vehicle Related Sales Tax Revenues	 \$ 1,708.4	 \$ 1,082.7	 \$ 1,115.4	 \$ 1,111.2
Allocation to Comprehensive Transportation Fund	<u>79.4</u>	<u>65.0</u>	<u>56.9</u>	<u>66.4</u>
 Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	 \$ 241.8	 \$ 231.3	 \$ 224.3	 \$ 231.8
Plus Other Revenues (primarily interest)	<u>1.4</u>	<u>3.6</u>	<u>5.0</u>	<u>0.5</u>
Money Available for Debt Service	<u>\$ 243.2</u>	<u>\$ 234.9</u>	<u>\$ 229.3</u>	<u>\$ 232.3</u>
 Debt Service:				
Principal	\$ 11.7	\$ 16.3	\$ 15.6	\$ 19.1
Interest	12.0	14.0	13.4	12.0
Actual Annual Debt Service (1)	<u>23.6</u>	<u>30.3</u>	<u>28.9</u>	<u>31.1</u>
 Debt Service Coverage	 10.3 x	 7.8 x	 7.9 x	 7.5 x

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

SOURCE: Michigan Department of Transportation.

Michigan

2007	2008	2009	2010	2011	2012
\$ 1,027.8	\$ 989.3	\$ 964.0	\$ 962.1	\$ 957.7	\$ 945.9
871.7	855.0	839.7	842.1	859.7	876.1
35.7	36.2	33.0	33.8	34.2	35.0
<u>1,935.3</u>	<u>1,880.6</u>	<u>1,836.7</u>	<u>1,837.9</u>	<u>1,851.5</u>	<u>1,857.0</u>
137.9	138.3	137.2	138.1	137.4	138.0
<u>1,797.4</u>	<u>1,742.3</u>	<u>1,699.5</u>	<u>1,699.9</u>	<u>1,714.1</u>	<u>1,719.0</u>
<u>164.7</u>	<u>159.9</u>	<u>155.3</u>	<u>155.2</u>	<u>156.7</u>	<u>157.0</u>
\$ 1,117.5	\$ 1,249.0	\$ 1,188.3	\$ 1,182.5	\$ 1,290.7	\$ 1,406.5
67.7	82.1	82.9	76.8	90.0	98.1
<u>232.4</u>	<u>242.0</u>	<u>238.2</u>	<u>232.0</u>	<u>246.7</u>	<u>255.1</u>
5.9	1.4	0.9	1.2	1.0	0.6
<u>\$ 238.3</u>	<u>\$ 243.5</u>	<u>\$ 239.1</u>	<u>\$ 233.2</u>	<u>\$ 247.8</u>	<u>\$ 255.8</u>
\$ 20.2	\$ 21.3	\$ 7.5	\$ 10.1	\$ 10.2	\$ 14.0
12.9	12.0	10.4	10.5	10.0	9.3
<u>33.2</u>	<u>33.3</u>	<u>17.9</u>	<u>20.6</u>	<u>20.1</u>	<u>23.4</u>
7.2 x	7.3 x	13.3 x	11.3 x	12.3 x	10.9 x

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

	2003	2004	2005	2006
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,093.2	\$ 1,073.3	\$ 1,069.1	\$ 1,055.3
Registration Taxes	844.7	933.8	863.4	867.7
Miscellaneous Fees	56.7	51.4	37.3	36.0
Total	1,994.5	2,058.4	1,969.8	1,959.0
Less Deductions:				
Critical Bridge Debt Service	2.2	2.2	2.2	2.5
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Collection Costs	113.1	42.2	44.5	57.1
Waterways/Recreational Improvement Fund	18.5	18.4	18.4	18.0
Comprehensive Transportation Fund (excluding interest)	162.3	166.4	167.3	165.4
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	5.0	5.0	17.2	28.9
Economic Development Fund	40.3	40.3	40.3	40.3
Total Deductions	417.4	350.5	366.0	388.2
Constitutionally Restricted Revenues				
Available for Distribution	1,577.2	1,707.9	1,603.8	1,570.8
Plus Other Revenues (primarily interest)	5.9	6.2	7.0	8.9
Total Money Available for Distribution	1,583.1	1,714.1	1,610.8	1,579.7
Distributions to:				
Cities and Villages	341.6	366.9	348.7	344.8
County Road Commissions	594.7	642.5	611.6	603.3
State Trunkline Fund	646.7	704.8	650.5	631.5
Money Available for Debt Service:				
State Trunkline Fund	646.7	704.8	650.5	631.5
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Economic Development Fund	40.3	40.3	40.3	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Critical Bridge Fund	2.2	2.2	2.2	2.5
Miscellaneous (1)	-	-	-	-
Total Available for Debt Service	765.1	823.2	769.0	750.3
Debt Service:				
Principal	\$ 26.2	\$ 23.9	\$ 25.0	\$ 19.9
Interest	39.5	43.9	49.5	74.7
Actual Annual Debt Service (2)	65.7	67.8	74.5	94.6
Debt Service Coverage	11.6 x	12.1 x	10.3 x	7.9 x

NOTES:

(1) Beginning fiscal year 2008, miscellaneous revenues were available for debt service.

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

SOURCE: Michigan Department of Transportation.

Michigan

2007	2008	2009	2010	2011	2012
\$ 1,027.8	\$ 989.3	\$ 964.0	\$ 962.1	\$ 957.7	\$ 945.9
871.7	855.0	839.7	842.1	859.7	876.1
35.7	36.2	33.0	33.8	34.2	35.0
<u>1,935.3</u>	<u>1,880.6</u>	<u>1,836.7</u>	<u>1,838.0</u>	<u>1,851.5</u>	<u>1,857.0</u>
2.8	2.8	2.8	3.3	3.3	3.3
43.0	43.0	43.0	43.0	43.0	43.0
46.2	48.1	47.8	47.9	47.8	48.6
17.6	16.9	16.6	16.7	16.5	16.4
164.7	159.9	155.3	155.2	156.7	157.0
33.0	33.0	33.0	33.0	33.0	33.0
28.3	27.5	27.0	27.2	26.9	26.8
40.3	40.3	40.3	40.3	40.3	40.3
<u>375.9</u>	<u>371.5</u>	<u>365.7</u>	<u>366.6</u>	<u>367.4</u>	<u>368.4</u>
1,559.4	1,509.1	1,471.0	1,471.4	1,484.1	1,488.6
8.2	9.0	2.3	2.2	0.6	1.2
<u>1,567.5</u>	<u>1,518.0</u>	<u>1,473.3</u>	<u>1,473.6</u>	<u>1,484.7</u>	<u>1,489.8</u>
342.8	332.1	322.4	322.4	324.6	326.0
599.7	580.9	563.7	563.8	568.4	569.3
625.0	605.0	587.2	587.4	591.7	592.5
625.0	605.0	587.2	587.4	591.7	592.5
43.0	43.0	43.0	43.0	43.0	43.0
40.3	40.3	40.3	40.3	40.3	40.3
33.0	33.0	33.0	33.0	33.0	33.0
2.8	2.8	2.8	3.3	3.3	3.3
-	40.5	27.1	36.4	39.5	35.4
<u>744.1</u>	<u>764.6</u>	<u>733.3</u>	<u>743.4</u>	<u>750.7</u>	<u>747.4</u>
\$ 20.0	\$ 43.5	\$ 45.6	\$ 79.2	\$ 82.6	\$ 86.3
84.8	91.5	90.1	80.9	77.5	75.6
<u>104.8</u>	<u>135.0</u>	<u>135.7</u>	<u>160.1</u>	<u>160.1</u>	<u>161.9</u>
7.1 x	5.7 x	5.4 x	4.6 x	4.7 x	4.6 x

Michigan

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

	2003	2004	2005	2006
Revenue - Lease and Rental Payments	\$ 287.5	\$ 239.9	\$ 246.9	\$ 255.5
Less: Operating Expenses	6.4	4.2	3.2	9.9
Net Available Revenue	<u>281.1</u>	<u>235.7</u>	<u>243.7</u>	<u>245.6</u>
Debt Service:				
Principal	141.7	84.7	119.9	82.1
Interest	<u>119.6</u>	<u>109.5</u>	<u>128.7</u>	<u>140.8</u>
Actual Annual Debt Service (1)	261.3	194.2	248.6	222.9
Debt Service Coverage	1.1 x	1.2 x	1.0 x	1.1 x

NOTE:

(1) The table above excludes amounts related to refunded bonds.

Michigan

2007	2008	2009	2010	2011	2012
\$ 213.2	\$ 219.4	\$ 230.4	\$ 230.1	\$ 233.1	\$ 234.3
0.8	0.8	1.1	1.6	1.4	1.6
212.4	218.6	229.3	228.5	231.7	232.7
83.6	87.1	100.5	96.1	128.9	96.2
117.5	123.4	122.2	120.0	122.5	121.0
201.1	210.5	222.7	216.1	251.4	217.2
1.1 x	1.0 x	1.0 x	1.1 x	0.9 x	1.1 x

DEMOGRAPHIC AND ECONOMIC INDICATORS
 LAST TEN CALENDAR YEARS

	2002	2003	2004	2005
Population (a) (in thousands)				
Michigan	10,016	10,041	10,055	10,051
United States	287,625	290,108	292,805	295,517
Total Personal Income (b) (in billions)				
Michigan	\$ 303.1	\$ 314.3	\$ 319.4	\$ 325.7
United States	\$ 9,054.7	\$ 9,369.1	\$ 9,928.8	\$ 10,476.7
Per Capita Income (b)				
Michigan	\$ 30,262	\$ 31,300	\$ 31,768	\$ 32,409
United States	\$ 31,481	\$ 32,295	\$ 33,909	\$ 35,452
Unemployment Rate (c)				
Michigan	6.2%	7.1%	7.1%	6.8%
United States	5.8%	6.0%	5.5%	5.1%
Michigan estimated wage and salary employees (c) (in thousands)				
Goods Producing:				
Mining and Logging	8.6	8.1	8.2	8.4
Construction	199.8	190.9	191.8	189.5
Manufacturing	762.2	718.4	699.4	678.7
Total Goods Producing	970.6	917.4	899.3	876.6
Service-Providing:				
Private Service-Providing				
Trade, Transportation, and Utilities:				
Wholesale Trade	175.4	172.6	170.5	170.7
Retail Trade	530.7	518.7	513.6	506.0
Transportation and Utilities	128.2	125.8	125.7	128.3
Information	70.4	67.1	65.7	64.9
Financial Activities:				
Finance and Insurance	157.7	160.7	159.6	159.9
Real Estate and Rental and Leasing	55.7	56.0	56.1	56.1
Professional and Business Services:				
Professional, Scientific, and Technical Services	258.7	249.2	245.5	247.7
Management of Companies and Enterprises	73.6	72.6	70.7	67.9
Administrative, Support Services, and Waste Management	267.0	266.4	270.1	277.5
Educational and Health Services:				
Educational Services	63.1	66.4	70.6	74.8
Health Care and Social Assistance	472.0	480.5	490.3	501.0
Leisure and Hospitality:				
Accommodation and Food Services	344.4	343.8	347.2	349.1
Other	53.5	54.3	54.8	55.4
Other Services	179.3	179.1	179.6	179.6
Total Private Service-Providing	2,829.7	2,813.1	2,820.0	2,839.1
Government	686.6	685.4	679.7	674.1
Total Service-Providing	3,516.3	3,498.5	3,499.7	3,513.1
Total Wage and Salary Employment	4,486.9	4,415.9	4,399.0	4,389.7

NOTES: Calendar year 2011 is the most recent year for which data is available.

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

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

SOURCES:

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

Michigan

2006	2007	2008	2009	2010	2011
10,036 298,380	10,001 301,231	9,947 304,094	9,902 306,772	9,877 309,330	9,876 311,592
\$ 334.9 \$ 11,256.5	\$ 344.2 \$ 11,900.6	\$ 351.0 \$ 12,451.7	\$ 328.9 \$ 11,852.7	\$ 339.0 \$ 12,308.5	\$ 358.2 \$ 12,949.9
\$ 33,365 \$ 37,725	\$ 34,419 \$ 39,506	\$ 35,288 \$ 40,947	\$ 33,221 \$ 38,637	\$ 34,326 \$ 39,791	\$ 36,264 \$ 41,560
6.9% 4.6%	7.1% 4.6%	8.3% 5.8%	13.4% 9.3%	12.7% 9.6%	10.3% 8.9%
8.0 178.4 649.5 <u>836.0</u>	7.7 166.7 618.8 <u>793.1</u>	7.9 153.5 573.6 <u>734.9</u>	6.9 127.6 464.8 <u>599.3</u>	7.1 121.6 475.7 <u>604.5</u>	7.4 124.7 506.1 <u>638.2</u>
170.6 496.0 128.4 63.9	169.0 489.7 128.3 62.9	167.8 478.1 124.5 60.2	152.9 451.4 112.9 56.3	150.7 446.5 113.5 54.8	156.2 446.1 117.6 53.4
158.9 54.9	156.2 53.3	149.9 52.0	142.6 48.8	139.8 48.3	143.8 49.4
246.2 64.9	246.2 60.0	243.9 56.9	220.9 51.1	222.6 51.0	233.8 53.2
275.1	274.5	262.8	229.5	242.4	262.3
76.1 507.2	78.7 518.0	80.5 526.9	79.2 530.1	77.3 534.5	76.6 543.9
351.0 54.6 177.5 <u>2,825.3</u>	350.1 55.5 176.6 <u>2,819.0</u>	344.0 54.3 175.6 <u>2,777.2</u>	329.1 50.9 168.8 <u>2,624.5</u>	327.1 48.6 166.3 <u>2,623.3</u>	327.5 48.0 167.3 <u>2,679.0</u>
<u>665.3</u> 3,490.6	<u>655.7</u> 3,474.7	<u>650.0</u> 3,427.3	<u>646.8</u> 3,271.2	<u>635.6</u> 3,258.9	<u>618.5</u> 3,297.5
<u>4,326.5</u>	<u>4,267.8</u>	<u>4,162.2</u>	<u>3,870.6</u>	<u>3,863.4</u>	<u>3,935.7</u>

CLASSIFIED EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Government	7,666	7,645	7,138	7,144
Education	298	324	352	367
Human services	10,303	10,104	9,953	9,778
Public safety and corrections	20,941	20,385	20,175	20,060
Conservation, environment, recreation, and agriculture	4,270	4,459	3,729	3,662
Labor, commerce, and regulatory	4,097	4,126	3,994	4,128
Health services	4,465	4,577	4,424	4,241
Transportation	<u>2,826</u>	<u>2,956</u>	<u>2,849</u>	<u>2,880</u>
Total	54,866	54,573	52,614	52,259

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

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

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

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

Michigan

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
7,264	7,347	7,328	6,995	6,645	7,027
369	380	405	445	446	476
9,759	9,582	10,168	10,414	10,365	11,052
19,948	19,451	19,310	18,388	17,508	16,689
3,586	3,439	3,466	3,359	3,041	3,049
3,967	3,781	4,056	4,298	3,727	3,756
4,225	3,964	4,075	3,873	3,448	3,003
<u>2,895</u>	<u>2,854</u>	<u>2,892</u>	<u>2,844</u>	<u>2,639</u>	<u>2,632</u>
52,013	50,799	51,699	50,615	47,818	47,683

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

	2003	2004	2005	2006
General government				
Tax forms processed (7)	8,131,481	8,079,995	8,059,355	8,259,132
Passenger, commercial, and recreational vehicle registrations	9,100,370	8,987,430	8,879,158	8,732,938
Driver licenses issued	1,899,690	2,018,292	1,913,530	1,724,108
Education				
K-12 students	1,718,286	1,716,511	1,708,584	1,697,936
Public university students	246,205	249,616	250,030	253,020
Community college students	125,719	127,717	131,150	133,359
Human services				
Food assistance program recipients (1)	836,518	943,713	1,047,594	1,133,793
Family independence program recipients (1)	200,962	211,569	212,252	217,318
Day care recipients (1)	122,360	120,623	118,939	114,758
Children in foster care	19,317	19,281	18,745	18,414
State disability assistance recipients (1)	9,114	10,058	10,560	10,591
Finalized adoptions (yearly total) (2)	2,643	2,776	2,910	2,621
Juvenile justice youth served	2,293	2,040	1,871	1,655
Open child support cases with support orders established	758,992	769,462	777,188	764,500
Public safety and corrections				
Inmates, parolees, and probationers (as of 9/30)	122,377	122,680	119,845	120,337
State police patrol miles driven	15,230,342	15,961,280	16,879,418	17,632,736
Criminal offender DNA samples entered into federal indexing database (calendar year)	13,967	34,525	23,099	41,888
National Guard members (as of 9/30)	11,306	10,917	11,125	11,768
Veteran homes average daily census	900	886	909	902
Conservation, environment, recreation and agriculture				
Hunting and/or fishing license holders (3)	2,104,171	2,053,768	2,004,577	1,950,676
Camping nights in State parks	1,156,130	1,040,368	1,005,437	956,030
Population impacted by water purification projects	314,918	203,641	3,994,970 (4)	1,046,379
Underground storage tank releases closed	339	337	265	320
Scrap tires collected (passenger tire equivalent)	1,751,165	3,215,727	5,942,164	6,081,447
Labor, commerce, and regulatory				
Processed applications for new and renewal occupational licenses	205,088	196,440	152,659	164,153
Building related permits issued	41,216	39,942	40,662	33,031
Building related safety inspections conducted	47,339	44,343	41,303	45,921
Occupational safety and health enforcement inspections conducted	4,820	5,301	4,492	5,102
Alleged occupational safety and health violations identified	19,188	20,576	17,621	17,311
Financial and insurance service providers chartered	252,338	260,498	281,668	297,662
Health services				
Medicaid recipients (1)	1,281,397	1,357,546	1,424,831	1,490,384
Women, Infants, and Children Food and Nutrition Program recipients (1)	216,684	222,077	226,601	229,770
Children's special health care services recipients (1)	27,105	29,105	30,232	30,449
Mentally ill/developmental disability service recipients (1)	185,072	187,059	200,424	207,407
Substance abuse service recipients	65,584	66,085	69,808	71,175

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 2012 are for the licensing year ending March 31, 2012.
- (4) The increase in fiscal year 2005 resulted from a project benefiting users of the Detroit Water and Sewage Department.
- (5) Amount estimated.
- (6) Enhanced driver licenses were sold starting in fiscal year 2009.
- (7) Numbers for fiscal years 2003 through 2008 are on a calendar year basis. Effective fiscal year 2009, the numbers are on a fiscal year basis.

SOURCES: Various State departments.

Michigan

2007	2008	2009	2010	2011	2012
8,245,905	8,335,760	8,320,921	8,078,164	8,521,664	8,539,957
8,785,222	8,570,421	8,506,838	8,459,499	8,479,747	8,435,868
1,875,932	1,915,459	1,910,604 ⁽⁶⁾	1,791,417	1,901,673	1,969,253
1,678,579	1,648,585	1,614,975	1,592,598	1,565,324	1,550,206
253,576	254,231	257,148	262,615	264,903	264,996
139,219	146,234	157,225	177,277	176,356	164,830
1,204,409	1,262,951	1,462,710	1,776,368	1,928,478	1,828,384
237,102	210,181	202,693	224,651	227,490	154,941
106,062	97,856	83,137	63,643	54,049	50,028
18,943	18,016	16,115	15,261	14,043	13,504
11,015	10,427	10,528	10,628	10,094	9,713
2,638	2,899	3,087	2,620	2,448	2,538 ⁽⁵⁾
1,512	1,371	1,047	988	951	801
754,511	755,004	763,919	764,388	772,687	774,666 ⁽⁵⁾
123,032	126,100	125,854	125,231	117,152	112,049
14,916,802	17,071,748	15,138,587	16,148,708	15,045,772	19,676,539
30,519	25,263	19,029	20,911	16,475	15,886 ⁽⁵⁾
11,862	11,991	11,817	11,900	11,504	11,156
896	891	875	852	798	690
1,981,382	1,964,480	1,951,579	1,934,765	1,912,262	1,851,287
929,753	891,607	894,410	916,289	899,311	1,002,000 ⁽⁵⁾
490,298	1,331,867	359,015	370,662	725,931	463,457
233	159	203	231	171	184
3,736,086	3,772,376	5,517,872	1,121,596	220,508	161,704 ⁽⁵⁾
198,430	151,230	150,118	155,035	147,791	125,603
26,942	24,025	19,604	20,078	18,182	19,221
42,931	47,847	54,766	62,717	60,863	63,963
5,001	5,032	5,071	5,202	5,343	5,394
16,712	15,781	14,006	14,221	14,333	13,744
323,791	334,685	328,182	331,410	349,269	390,005
1,524,299	1,536,853	1,622,758	1,823,178	1,899,107	1,864,799
232,280	239,145	242,453	256,229	252,123	255,954
30,898	31,452	30,008	31,818	31,587	29,561
213,257	219,238	228,258	228,215	231,091	244,544 ⁽⁵⁾
69,564	70,978	73,334	71,382	70,069	70,145 ⁽⁵⁾

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

	2003	2004	2005	2006
Transportation				
Annual vehicle miles of travel on				
State Trunkline roads (12)	53,400,000,000	53,700,000,000	52,600,000,000	51,500,000,000
Miles of intercity bus travel receiving State funding	1,148,787	1,116,321	1,090,708	1,086,793
Miles of local bus travel receiving State funding	97,289,858	93,223,721	88,837,852	92,951,025
Railroad crossing maintenance/safety inspections	2,405	2,370	2,898	2,531
Tax credits				
Taxpayers claiming refundable credits (9) (11)	1,416,100	1,479,300	1,497,900	1,525,500
Intergovernmental-revenue sharing				
Township grants	1,241	1,241	1,241	1,241
City grants	272	272	274	274
Village grants	261	261	259	259
County grants (10)	83	83	-	-
Liquor Purchase Revolving Fund				
Annual retail liquor licenses issued	16,034	16,019	15,964	15,942
Liquor sales volume (cases)	5,752,264	6,029,155	6,110,122	6,293,797
Beer sales volume (barrels)	6,802,658	6,807,147	6,721,468	6,647,438
Wine sales volume (liters)	61,471,699	65,417,883	66,022,306	68,139,758
Pre-mixed spirit drink sales volume (liters)	1,032,309	1,237,451	1,065,146	871,900
State Lottery Fund				
Retailers	9,048	10,806	11,076	10,880
Winners greater than \$600	44,162	44,962	44,692	52,124
Millionaire prizewinners	11	20	21	17
Michigan Unemployment Compensation Funds				
Individuals receiving benefits (calendar year)	617,145	617,134	547,376	569,721

NOTES:

- (8) Amount estimated.
- (9) Tax credits are reported based on the tax year. Credits claimed during tax year 2011, for example, are reported above in fiscal year 2011. The 2011 totals include approximately 130,000 returns claiming an Energy Efficient Qualified Home Improvement tax credit.
- (10) County grants were suspended beginning in fiscal year 2005. Instead, each county expends from its revenue sharing reserve fund created by State statute in 2004. Each fiscal year, counties are allowed only to expend from the fund the amount the Department of Treasury certifies them to spend. Once a county has exhausted its revenue sharing reserve fund, the county will return to revenue sharing.
- (11) Amount estimated and rounded to nearest hundred.
- (12) Amount estimated and rounded to nearest one hundred million on a calendar-year basis.

SOURCES: Various State departments.

Michigan

2007	2008	2009	2010	2011	2012
52,000,000,000	51,500,000,000	48,700,000,000	48,700,000,000	49,800,000,000	48,700,000,000
1,081,038	1,087,543	1,080,543	1,080,444	1,086,022	1,094,911
94,128,601	101,037,008	99,503,940	95,554,816	97,631,615	99,198,358
2,679	2,586	1,932	1,454	2,563	2,644
1,581,700	2,322,600	2,566,100	2,454,200	2,381,000	Unavailable
1,241	1,241	1,240	1,240	1,240	1,240
274	274	275	277	277	277
259	259	258	256	256	256
-	1	7	20	36	50
15,838	15,763	15,771	15,898	15,870	15,961
6,464,739	6,611,415	6,734,253	6,877,873	7,117,299	7,373,714
6,588,385	6,601,138	6,465,495	6,448,197	6,250,673	6,318,295
71,385,503	72,797,847	73,200,249	79,440,328	81,504,221	84,253,865
1,008,073	811,286	787,948	983,029	954,712	1,076,369
10,973	10,969	10,680	10,797	10,746	10,879
49,585	44,962	53,986	60,543	48,567	44,904
42	37	40	39	28	31
547,950	633,558	913,568	825,858	636,493	481,000 ⁽⁸⁾

CAPITAL ASSETS BY FUNCTION
 LAST TEN FISCAL YEARS

	2003	2004	2005	2006
General Government:				
Buildings	Unavailable	Unavailable	Unavailable	281
Vehicles	Unavailable	Unavailable	Unavailable	747
Education				
Buildings	Unavailable	Unavailable	Unavailable	27
Vehicles	Unavailable	Unavailable	Unavailable	28
Human services				
Buildings	Unavailable	Unavailable	Unavailable	208
Vehicles	Unavailable	Unavailable	Unavailable	838
Public safety and corrections				
Buildings	Unavailable	Unavailable	Unavailable	1,390
Vehicles	Unavailable	Unavailable	Unavailable	3,401
Conservation, environment, recreation, and agriculture				
Buildings	192	203	229	249
Vehicles	Unavailable	Unavailable	Unavailable	3,452
Environmental quality air-monitoring instruments	116	146	170	188
Environmental quality lab/analyzing equipment	129	151	127	131
Natural resources acres of land	4,551,591	4,556,233	4,557,246	4,562,444
Harbors	16	16	16	16
Hatcheries	6	6	6	6
State park & recreation areas	97	97	97	97
Labor, commerce, and regulatory				
Buildings	Unavailable	Unavailable	Unavailable	160
Vehicles	Unavailable	Unavailable	Unavailable	482
Health services				
Buildings	Unavailable	Unavailable	Unavailable	239
Vehicles	Unavailable	Unavailable	Unavailable	272
Transportation				
Buildings	Unavailable	Unavailable	Unavailable	437
Vehicles	1,320	1,322	1,448	1,841
Highway lane miles (calendar year)	27,460	27,534	27,557	27,521
Heavy equipment owned	2,112	2,129	2,117	2,162

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.

Building counts for 2003 - 2005 in the Conservation, environment, recreation, and agriculture function represent only those buildings owned by the Department of Natural Resources.

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

Michigan

2007	2008	2009	2010	2011	2012
280	296	279	261	247	239
754	756	772	812	762	783
27	27	27	27	27	27
21	21	23	23	24	28
208	210	207	193	188	177
844	931	926	930	997	1,104
1,390	1,403	1,393	1,389	1,386	1,255
3,548	3,605	3,542	3,568	3,448	3,433
300	314	326	340	339	335
3,763	3,832	3,850	3,912	3,829	3,853
194	195	198	202	202	202
153	147	147	144	150	156
4,566,708	4,574,274	4,582,771	4,588,442	4,586,891	4,586,922
16	16	17	17	18	19
6	6	6	6	6	6
98	98	98	98	99	101
164	158	154	173	166	112
482	509	510	492	490	585
239	241	241	241	241	243
276	287	290	305	300	213
437	439	436	436	435	374
1,872	1,777	1,764	1,770	1,729	1,707
27,514	27,478	27,438	27,432	27,439	27,437
2,184	2,164	2,173	2,184	2,211	2,150





IV. OTHER INFORMATION

COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL AND SPECIAL REVENUE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2012
(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
TAXES			
Sales	\$ 6,955,198	\$ 1,800,125	\$ 5,155,073
Personal income	8,147,333	6,047,166	2,100,167
Single business, Michigan business, corporate income	1,321,782	1,321,782	-
Use	1,428,284	951,939	476,345
State education (property)	1,789,672	-	1,789,672
Real estate transfer	150,106	-	150,106
Tobacco products	963,181	589,204	373,977
Beer and wine	50,828	50,828	-
Liquor	124,353	83,087	41,266
Horse race wagering	4,985	4,985	-
Casino gaming wagering	115,753	-	115,753
Telephone and telegraph company	59,218	59,218	-
Commercial mobile radio service	27,865	27,865	-
Insurance company	290,385	290,385	-
Health insurance claims assessment	176,419	176,419	-
Motor vehicle registration	878,941	2,876	876,064
Gasoline	819,109	-	819,109
Diesel fuel	127,042	-	127,042
Gas and oil severance	54,645	54,645	-
Industrial facilities	35,678	-	35,678
Convention hotel accommodation	18,450	18,450	-
Airport parking	20,628	20,628	-
Quality assurance assessment	959,267	959,267	-
Penalties and interest	167,882	167,882	-
Other	77,913	53,557	24,356
	<u>24,764,916</u>	<u>12,680,308</u>	<u>12,084,608</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	10,498,649	10,494,346	4,303
Department of Education	1,652,326	249,072	1,403,254
Department of Agriculture	3,771,227	3,358,620	412,608
Department of Labor	181,148	27,223	153,925
Department of Housing and Urban Development	11,981	11,981	-
Department of Energy	85,231	85,231	-
Department of Transportation	80,086	24,306	55,780
Department of Interior	32,789	25,431	7,358
Department of Defense	59,888	59,888	-
Department of Justice	44,024	44,024	-
Environmental Protection Agency	56,803	56,566	237
Other	138,572	138,546	26
	<u>16,612,723</u>	<u>14,575,232</u>	<u>2,037,491</u>
FROM LOCAL AGENCIES			
Counties	69,431	69,431	-
Cities, villages, and townships	183	183	-
School districts	2,923	2,923	-
Other	12,857	12,857	-
	<u>85,394</u>	<u>85,394</u>	<u>-</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>186,194</u>	<u>186,194</u>	<u>-</u>
	186,194	186,194	-

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	\$ 128,251	\$ 124,673	\$ 3,579
Revenue for patient, ward, and inmate care	34,467	34,467	-
Other	147,557	147,556	1
	<u>310,275</u>	<u>306,695</u>	<u>3,580</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	16,424	16,424	-
Motor vehicle operator and chauffeur licenses	44,953	44,508	445
Examination fees - financial institutions and insurance industry	34,119	34,119	-
Concession and privilege fees - State parks	768	-	768
Motor vehicle related	33,092	2,480	30,612
Hunting, fishing, and trapping licenses	48,638	-	48,638
Public utility assessment fees	23,773	23,773	-
Regulatory licenses and permits	77,216	69,655	7,561
Auto repair facility and mechanic licenses and fees	3,455	3,455	-
Corporation franchise fees	21,663	21,663	-
Recreation user fees and permits	73,990	1,986	72,004
Other	85,981	83,956	2,024
	<u>464,072</u>	<u>302,020</u>	<u>162,052</u>
MISCELLANEOUS			
Income from investments	30,208	1,128	29,080
Tobacco settlement proceeds	194,430	-	194,430
Various fines, fees, and assessments	72,369	39,627	32,742
Court fines, fees, and assessments	325,501	314,182	11,320
Oil and gas royalties, fees, assignments, and rentals	13,868	8,957	4,910
Environmental pollution settlements	5,281	1,522	3,759
Child support	25,125	25,125	-
Vulnerable household warmth	72,386	72,386	-
Unemployment obligation assessment	255,541	-	255,541
Other	722,070	382,723	339,347
	<u>1,716,779</u>	<u>845,650</u>	<u>871,129</u>
Total Revenues	<u>44,140,354</u>	<u>28,981,493</u>	<u>15,158,861</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	270,001	270,001	-
Capital lease acquisitions	34,567	34,567	-
Proceeds from sale of capital assets	2,848	2,848	-
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	175,821	175,821	-
From State Lottery Fund	786,922	8,490	778,432
From other funds	452,384	49,797	402,587
	<u>1,722,543</u>	<u>541,524</u>	<u>1,181,019</u>
Total Other Financing Sources	<u>1,722,543</u>	<u>541,524</u>	<u>1,181,019</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 45,862,897</u>	<u>\$ 29,523,017</u>	<u>\$ 16,339,880</u>

SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES

GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
TAXES			
Sales	\$ 1,800,125	\$ 736,718	\$ 1,063,407
Personal income	6,047,166	4,704,817	1,342,349
Single business, Michigan business, and corporate income	1,321,782	1,261,361	60,421
Use	951,939	921,436	30,503
Tobacco products	589,204	192,620	396,584
Beer and wine	50,828	50,828	-
Liquor	83,087	41,782	41,305
Horse race wagering	4,985	-	4,985
Telephone and telegraph company	59,218	59,218	-
Commercial mobile radio service	27,865	-	27,865
Insurance company	290,385	290,340	44
Health insurance claims assessment	176,419	-	176,419
Motor vehicle registration	2,876	-	2,876
Gas and oil severance	54,645	53,556	1,089
Convention hotel accommodation	18,450	-	18,450
Airport parking	20,628	-	20,628
Quality assurance assessment	959,267	-	959,267
Penalties and interest	167,882	154,191	13,691
Other	53,557	1,901	51,656
	<u>12,680,308</u>	<u>8,468,768</u>	<u>4,211,540</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	10,494,346	41,094	10,453,252
Department of Education	249,072	1,199	247,873
Department of Agriculture	3,358,620	2,528	3,356,092
Department of Labor	27,223	1,470	25,752
Department of Housing and Urban Development	11,981	50	11,931
Department of Energy	85,231	222	85,009
Department of Transportation	24,306	1,308	22,998
Department of Interior	25,431	531	24,900
Department of Defense	59,888	67	59,821
Department of Justice	44,024	405	43,619
Environmental Protection Agency	56,566	3,847	52,719
Other	138,546	2,119	136,427
	<u>14,575,232</u>	<u>54,839</u>	<u>14,520,393</u>
FROM LOCAL AGENCIES			
Counties	69,431	3,049	66,383
Cities, villages, and townships	183	-	183
School districts	2,923	-	2,923
Other	12,857	125	12,732
	<u>85,394</u>	<u>3,174</u>	<u>82,221</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	186,194	-	186,194
	<u>186,194</u>	<u>-</u>	<u>186,194</u>

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 124,673	\$ 796	\$ 123,876
Revenue for patient, ward, and inmate care	34,467	-	34,467
Other	147,556	9,731	137,825
	<u>306,695</u>	<u>10,527</u>	<u>296,167</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	16,424	1,196	15,228
Motor vehicle operator and chauffeur licenses	44,508	6,592	37,916
Examination fees - financial institutions and insurance industry	34,119	-	34,119
Motor vehicle related	2,480	18	2,462
Public utility assessment fees	23,773	-	23,773
Regulatory licenses and permits	69,655	6,440	63,215
Auto repair facility and mechanic licenses and fees	3,455	575	2,880
Corporation franchise fees	21,663	-	21,663
Recreation user fees and permits	1,986	363	1,623
Other	83,956	1,129	82,828
	<u>302,020</u>	<u>16,312</u>	<u>285,708</u>
MISCELLANEOUS			
Income from investments	1,128	201	926
Various fines, fees, and assessments	39,627	875	38,752
Court fines, fees, and assessments	314,182	121,222	192,960
Oil and gas royalties, fees, assignments, and rentals	8,957	-	8,957
Environmental pollution settlements	1,522	-	1,522
Child support	25,125	-	25,125
Vulnerable household warmth	72,386	-	72,386
Other	382,723	177,718	205,005
	<u>845,650</u>	<u>300,016</u>	<u>545,634</u>
 Total Revenues	 <u>28,981,493</u>	 <u>8,853,637</u>	 <u>20,127,856</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	270,001	7,996	262,005
Capital lease acquisitions	34,567	-	34,567
Proceeds from sale of capital assets	2,848	3	2,845
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	175,821	174,886	935
From State Lottery Fund	8,490	7,500	990
From other funds	49,797	117	49,679
	<u>541,524</u>	<u>190,503</u>	<u>351,022</u>
 Total Revenue and Other Financing Sources (GAAP Basis)	 <u>29,523,017</u>	 <u>9,044,140</u>	 <u>20,478,877</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease acquisitions	(34,567)	-	(34,567)
 Total Revenue and Other Financing Sources (Budgetary Basis)	 <u>\$ 29,488,450</u>	 <u>\$ 9,044,140</u>	 <u>\$ 20,444,310</u>

SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2012

(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	\$ 123,450	\$ -	\$ 181	\$ 12,464	\$ 7,786	\$ -
Judicial Branch	156,533	-	-	15,828	79,872	(14,095)
Executive Branch:						
Agriculture and Rural Development	29,187	-	-	10,711	35,276	(8,610)
Attorney General	30,607	-	-	2,735	40,989	(2,413)
Civil Rights	10,855	-	-	-	2,355	-
Colleges and Universities Grants	1,087,394	-	3,626	5	87,756	-
Community Health	2,759,513	-	-	280,990	11,125,326	(204,915)
Corrections	1,921,594	-	-	15,037	37,130	(16,497)
Education	101,337	42,045	-	3,755	225,830	(3,125)
Environmental Quality	28,204	-	-	109,580	235,619	(133,170)
Executive Office	4,599	-	-	-	-	-
Human Services	993,586	(42,045)	-	35,789	4,964,058	(13,979)
Licensing and Regulatory Affairs	43,510	(325)	-	117,799	379,417	(104,350)
Military and Veterans Affairs	38,395	-	-	4,472	115,314	(10,380)
Natural Resources	23,668	-	-	5,838	54,569	(6,720)
State	12,668	-	-	25,419	184,778	(30,810)
State Police	280,266	-	-	47,874	225,325	(28,657)
Technology, Management and Budget	716,684	-	65	35,167	587,234	(397,230)
Transportation	500	-	-	-	-	-
Treasury	369,998	325	1,777	129,822	2,955,591	(84,195)
Intrafund expenditure reimbursements	-	-	-	-	-	-
TOTAL	\$ 8,732,546	\$ -	\$ 5,649	\$ 853,285	\$ 21,344,227	\$ (1,059,145)

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

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

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

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

Michigan

GROSS SPENDING AUTHORITY	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	"BUDGET"	"ACTUAL"		"VARIANCES"		
		AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
\$ 143,880	\$ (15,353)	\$ 128,527	\$ 127,887	\$ 445	\$ 63	\$ 132	\$ -
238,138	-	238,138	235,263	2,274	18	583	-
66,564	-	66,564	66,151	402	-	11	-
71,919	(871)	71,048	70,824	74	-	151	-
13,211	-	13,211	12,844	3	-	364	-
1,178,781	(206)	1,178,575	1,178,451	-	-	124	-
13,960,913	(4,779)	13,956,135	13,938,131	2,146	-	16,654	(796)
1,957,265	(2,180)	1,955,085	1,931,478	15,707	745	7,155	-
369,843	(108)	369,735	368,055	987	507	186	-
240,232	(6,000)	234,232	234,004	216	-	12	-
4,599	-	4,599	4,450	-	-	149	-
5,937,409	(3,570)	5,933,839	5,877,200	19,548	-	37,091	-
436,050	-	436,050	433,649	254	529	1,618	-
147,802	(169)	147,632	146,888	671	-	73	-
77,354	(230)	77,125	76,891	195	12	27	-
192,055	(1,505)	190,551	185,492	3,772	91	1,195	-
524,807	(1,498)	523,310	521,212	1,959	-	138	-
941,920	(3,381)	938,539	912,739	1,532	561	23,708	-
500	-	500	500	-	-	-	-
3,373,318	(23,768)	3,349,550	3,298,305	24,517	15,776	10,953	-
-	-	(899,917)	(899,917)	-	-	-	-
<u>\$ 29,876,560</u>	<u>\$ (63,616)</u>	<u>\$ 28,913,028</u>	<u>\$ 28,720,498</u>	<u>\$ 74,702</u>	<u>\$ 18,302</u>	<u>\$ 100,322</u>	<u>\$ (796)</u>
Prior Year encumbrances		(68,776)	(68,776)				
Amount reported on Budgetary Comparison Schedule		<u>\$ 28,844,252</u>	<u>\$ 28,651,722</u>	<u>\$ 74,702</u>	<u>\$ 18,302</u>	<u>\$ 100,322</u>	<u>\$ (796)</u>

**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 2012
FISCAL YEAR ENDED SEPTEMBER 30, 2012**
(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 123,450	\$ 10	\$ 180
Judicial Branch	156,533	-	-
Executive Branch:			
Agriculture and Rural Development	29,187	-	-
Attorney General	30,607	-	-
Civil Rights	10,855	-	-
Colleges and Universities Grants	1,087,394	-	3,626
Community Health	2,759,513	-	-
Corrections	1,921,594	-	-
Education	101,337	42,045	-
Environmental Quality	28,204	-	-
Executive Office	4,599	-	-
Human Services	993,586	(42,045)	-
Licensing and Regulatory Affairs	43,510	-	-
Military and Veterans Affairs	38,395	-	-
Natural Resources	23,668	-	-
State	12,668	-	-
State Police	280,266	-	-
Technology, Management and Budget	716,684	-	65
Transportation	500	-	-
Treasury	369,998	-	1,777
	<u>\$ 8,732,546</u>	<u>\$ 10</u>	<u>\$ 5,649</u>
TOTAL	\$ 8,732,546	\$ 10	\$ 5,649

* 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 \$240.9 million of the "Current Legislative Appropriation" for the Appropriation Year 2012.

Michigan

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 123,639	\$ 114,209	\$ 370	\$ 8,929	\$ 131	\$ -
156,533	154,140	1,813	-	579	-
29,187	28,975	211	-	1	-
30,607	29,517	73	871	147	-
10,855	10,489	3	-	364	-
1,091,020	1,090,695	-	202	123	-
2,759,513	2,740,853	1,733	2,407	14,519	-
1,921,594	1,901,625	11,077	2,180	6,712	-
143,383	142,495	800	-	88	-
28,204	21,986	216	6,000	1	-
4,599	4,450	-	-	149	-
951,541	897,558	17,752	1,122	35,110	-
43,510	41,729	227	-	1,554	-
38,395	37,775	556	40	24	-
23,668	23,321	107	230	11	-
12,668	11,103	13	357	1,195	-
280,266	279,775	419	-	71	-
716,749	688,995	833	3,380	23,540	-
500	500	-	-	-	-
371,775	348,883	3,689	8,632	10,570	-
<u>\$ 8,738,204</u>	<u>\$ 8,569,073</u>	<u>\$ 39,891</u>	<u>\$ 34,349</u>	<u>\$ 94,891</u>	<u>\$ -</u>

Michigan

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

LAST TEN YEARS

SEPTEMBER 30, 2012

(In Thousands)

<u>SOURCE</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
TAXES:				
Sales	\$ 6,422,642	\$ 6,473,522	\$ 6,599,138	\$ 6,638,110
Personal Income (net of tax credits)	5,811,843	5,873,365	6,108,924	6,226,304
Amount reported as tax credits	707,800	702,700	815,300	834,000
Single Business, Michigan Business, and Corporate Income	1,843,072	1,841,010	1,907,190	1,886,168
Use	1,229,838	1,316,504	1,402,399	1,413,758
State Education (Property)	2,127,513	1,824,493	1,914,629	2,003,527
Real Estate Transfer	275,513	317,480	313,548	297,680
Tobacco Products	891,775	992,793	1,179,871	1,169,005
Beer, Wine, and Liquor	143,547	149,424	150,888	155,184
Casino Gaming Wagering	90,945	99,455	145,811	155,461
Insurance Company	231,076	230,272	249,524	219,538
Health Insurance Claims Assessment	-	-	-	-
Motor Vehicle and Fuel	1,938,823	2,007,846	1,935,732	1,926,069
Quality Assurance Assessment	-	325,188	509,857	676,923
Penalties and Interest	128,697	104,432	142,703	140,581
Other	575,472	533,722	554,732	450,642
TOTAL TAXES	<u>22,418,555</u>	<u>22,792,207</u>	<u>23,930,245</u>	<u>24,192,949</u>
FEDERAL AGENCIES	9,972,067	10,667,838	10,890,093	11,060,621
LOCAL AGENCIES	107,026	109,557	107,250	105,566
SPECIAL MEDICAID REIMBURSEMENTS	932,658	704,551	467,970	93,621
SERVICES	120,618	147,683	264,541	269,040
LICENSES AND PERMITS	399,503	536,610	407,862	419,753
MISCELLANEOUS	<u>1,331,834</u>	<u>1,058,829</u>	<u>1,292,600</u>	<u>1,764,227</u>
TOTAL REVENUE	<u>35,282,262</u>	<u>36,017,274</u>	<u>37,360,562</u>	<u>37,905,776</u>
PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES	300,826	220,171	182,441	234,738
CAPITAL LEASE ACQUISITIONS	16,052	19,661	6,778	34,059
PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>-</u>	<u>4,609</u>	<u>3,037</u>	<u>1,339</u>
TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS	<u>\$ 35,599,140</u>	<u>\$ 36,261,714</u>	<u>\$ 37,552,817</u>	<u>\$ 38,175,912</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.

(3) Effective January 1, 2008, the State replaced the single business tax with the Michigan business tax. Effective January 1, 2012, the State replaced the Michigan business tax with the Corporate income tax.

(4) Legislation established the Health Insurance Claims Assessment, effective January 1, 2012.

Michigan

	2007	2008	2009	2010	2011	2012
\$	6,552,240	\$ 6,773,276	\$ 6,089,106	\$ 6,176,843	\$ 6,710,882	\$ 6,955,198
	6,442,678	7,226,049	5,856,753	5,531,348	6,417,078	6,921,033
	883,400	931,600	963,500	1,351,500	1,271,900	1,226,300
	1,786,213	2,482,035	2,285,237	1,853,557	2,098,407	1,321,782
	1,380,375	1,377,077	1,283,685	1,573,667	1,548,914	1,428,284
	2,080,977	2,079,703	2,040,647	1,930,480	1,845,086	1,789,672
	237,483	169,835	125,294	121,632	123,254	150,106
	1,129,226	1,073,650	1,041,541	1,006,527	968,512	963,181
	159,109	162,104	164,068	164,071	167,487	175,181
	159,363	129,684	121,363	101,816	114,017	115,753
	223,754	223,198	261,002	257,511	271,257	290,385
	-	-	-	-	-	176,419
	1,902,811	1,847,540	1,806,694	1,807,185	1,820,367	1,825,091
	827,776	1,023,766	859,482	840,254	882,600	959,267
	158,218	160,939	150,334	137,793	139,251	167,882
	440,925	409,333	293,955	315,218	307,324	299,383
	<u>24,364,549</u>	<u>26,069,791</u>	<u>23,342,662</u>	<u>23,169,402</u>	<u>24,686,336</u>	<u>24,764,916</u>
	11,452,444	12,283,854	16,040,813	18,351,960	18,972,659	16,612,723
	117,653	114,856	102,040	89,633	85,674	85,394
	102,670	115,797	135,667	123,205	155,059	186,194
	283,907	290,934	288,373	300,362	320,469	310,275
	427,915	435,108	450,009	452,620	448,012	464,072
	<u>1,835,865</u>	<u>1,401,128</u>	<u>1,362,184</u>	<u>1,293,772</u>	<u>1,387,068</u>	<u>1,716,779</u>
	<u>38,585,002</u>	<u>40,711,468</u>	<u>41,721,749</u>	<u>43,780,955</u>	<u>46,055,277</u>	<u>44,140,354</u>
	18,662	26,215	144,225	60,583	211,001	270,001
	20,906	110,374	41,205	39,101	171,094	34,567
	<u>2,478</u>	<u>27,381</u>	<u>2,209</u>	<u>1,576</u>	<u>1,742</u>	<u>2,848</u>
\$	<u><u>38,627,048</u></u>	<u><u>40,875,439</u></u>	<u><u>41,909,387</u></u>	<u><u>43,882,215</u></u>	<u><u>46,439,114</u></u>	<u><u>44,447,770</u></u>

SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 2012
 (In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Current:				
General government	\$ 1,207,672	\$ 1,116,072	\$ 1,303,020	\$ 1,628,520
Education	14,624,856	14,305,112	14,488,870	14,710,682
Human services	3,875,371	3,932,475	4,122,779	4,341,774
Public safety and corrections	2,112,194	2,118,888	2,284,674	2,453,297
Conservation, environment, recreation, and agriculture	571,450	568,975	597,928	626,802
Labor, commerce, and regulatory	891,644	902,903	924,876	952,921
Health services	9,270,484	9,676,268	10,126,544	9,958,104
Transportation	1,177,385	1,271,492	1,195,941	1,182,924
Tax credits	707,800	702,700	815,300	834,000
Capital outlay	49,801	61,027	47,403	58,365
Intergovernmental - revenue sharing	1,451,374	1,305,146	1,112,931	1,103,625
Debt service:				
Bond interest and fiscal charges	-	-	-	174
Capital lease payments	<u>67,564</u>	<u>50,680</u>	<u>49,370</u>	<u>49,032</u>
Total Expenditures	<u>\$ 36,007,595</u>	<u>\$ 36,011,739</u>	<u>\$ 37,069,635</u>	<u>\$ 37,900,220</u>

Michigan

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	1,580,973	\$ 1,546,624	\$ 1,582,399	\$ 1,463,926	\$ 1,856,935	\$ 1,935,857
	14,572,261	15,029,489	15,195,462	14,995,595	15,216,151	14,540,137
	4,447,992	4,609,481	5,334,263	6,042,987	6,346,672	5,886,563
	2,465,362	2,614,768	2,589,942	2,571,390	2,547,868	2,564,921
	552,992	580,246	539,796	528,387	501,050	563,310
	957,023	966,091	1,145,954	1,223,197	1,143,962	923,059
	10,741,285	11,588,207	12,450,287	13,218,598	13,905,003	13,698,746
	1,183,513	1,162,196	1,137,584	1,154,659	1,149,640	1,180,615
	883,400	931,600	963,500	1,351,500	1,271,900	1,226,300
	42,290	31,978	38,429	38,136	21,659	26,765
	1,071,104	1,076,445	1,040,031	994,196	1,091,527	1,032,243
	-	-	-	-	-	-
	<u>45,997</u>	<u>50,086</u>	<u>49,936</u>	<u>50,811</u>	<u>55,803</u>	<u>55,867</u>
\$	<u><u>38,544,191</u></u>	<u><u>40,187,211</u></u>	<u><u>42,067,585</u></u>	<u><u>43,633,381</u></u>	<u><u>45,108,168</u></u>	<u><u>43,634,383</u></u>

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