

NOTE 19 – TRANSFERS

Interfund transfers for the year ended September 30, 2006, 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	\$ -	\$ 62.7	\$ 330.8	\$ 393.5
School Aid Fund	-	-	44.5	44.5
Non-major Governmental Funds	85.1	-	1,748.9	1,833.9
State Lottery Fund	11.5	688.0	-	699.5
Unemployment Compensation Funds	5.7	-	6.8	12.6
Non-major Enterprise Funds	152.4	-	-	152.4
Internal Service Funds	1.3	-	-	1.3
Fiduciary Funds	.1	-	-	.1
Total	<u>\$ 256.0</u>	<u>\$ 750.7</u>	<u>\$ 2,131.0</u>	<u>\$ 3,137.8</u>

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

NOTE 20 – FUND DEFICITS

Primary Government

Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$37.6 million. The deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$52.2 million. The deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds

The Office Services Revolving Fund, an internal service fund, had a fund balance deficit of \$8.3 million. The deficit resulted because rates charged were insufficient to cover expenses incurred. The rates were increased in fiscal year 2007 to eliminate the deficit.

Discretely Presented Component Units

All discretely presented component units have positive net asset balances as of September 30, 2006, with the exception of the Michigan Education Trust (MET) and Michigan Broadband Development Authority (MBDA). MET's fund deficit of \$23.6 million was caused by interest earnings in the last year that were less than expected, and tuition and fee increases in the last year that were greater than expected. MBDA's fund deficit of \$.1 million was caused by expenses for projects for which not all corresponding revenue was received.

NOTE 21 – FUND BALANCES AND NET ASSETS

Reservations - Primary Government

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

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Permanent Funds	Total
Budgetary carry-forwards:						
Encumbrances	\$ 14.9	\$.2	\$ 145.0	\$ -	\$ 10.8	\$ 171.0
Restricted revenues	565.8	-	247.8	-	-	813.7
Multi-year projects (capital outlay and work projects)	30.1	1.3	392.8	-	44.3	468.5
Construction and debt service	-	-	85.1	-	-	85.1
Revolving loan programs	5.0	-	55.2	-	-	60.2
Funds held as permanent investments	-	-	134.9	-	503.8	638.6
Noncurrent assets	450.9	5.8	29.7	-	-	486.5
Other purposes	-	-	-	.3	-	.3
Total Reserved Fund Balances	<u>\$ 1,066.8</u>	<u>\$ 7.4</u>	<u>\$ 1,090.7</u>	<u>\$.3</u>	<u>\$ 558.9</u>	<u>\$ 2,724.0</u>

Budgetary carry-forwards represent unused spending authorization that continues to be available in the new year. Restricted revenue carry-forwards include revenues restricted by law for specified purposes. The largest restricted revenue carry-forward in the General Fund is related to the Refined Petroleum Fund in the amount of \$98.2 million. The \$30.1 million of multi-year projects in the General Fund includes \$5.8 million of capital outlay and \$24.4 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

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

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

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

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

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

Michigan
Notes to the Financial Statements

Net Asset Designations - Primary Government

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

The State Sponsored Group Insurance Fund, an internal service fund described in Note 24, designated \$80.3 million for future catastrophic losses.

Restricted Net Assets – Primary Government

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

	Restricted by Enabling Legislation	External or Constitutional Restrictions	Total
Governmental Activities:			
Restricted For:			
Public safety and corrections	\$ 4.9	\$ -	\$ 4.9
Conservation, environment, recreation, and agriculture	441.8	9.5	451.3
Health and human services	28.7	19.1	47.7
Transportation	-	791.4	791.4
Labor and economic growth	63.3	-	63.3
Other purposes	92.6	6.0	98.6
Funds Held as Permanent Investments:			
Expendable	-	100.3	100.3
Nonexpendable	23.0	484.4	507.4
Total Restricted Net Assets - Governmental	<u>\$ 654.2</u>	<u>\$ 1,410.7</u>	<u>\$ 2,065.0</u>
Business-Type Activities:			
Restricted For:			
Unemployment compensation	\$ 585.9	\$ -	\$ 585.9
Other purposes	36.1	-	36.1
Total Restricted Net Assets – Business-Type	<u>\$ 622.0</u>	<u>\$ -</u>	<u>\$ 622.0</u>
Total Primary Government:			
Restricted For:			
Public safety and corrections	\$ 4.9	\$ -	\$ 4.9
Conservation, environment, recreation, and agriculture	441.8	9.5	451.3
Health and human services	28.7	19.1	47.7
Transportation	-	791.4	791.4
Unemployment compensation	585.9	-	585.9
Labor and economic growth	63.3	-	63.3
Other purposes	128.6	6.0	134.7
Funds Held as Permanent Investments:			
Expendable	-	100.3	100.3
Nonexpendable	23.0	484.4	507.4
Total Restricted Net Assets – Primary Government	<u>\$ 1,276.2</u>	<u>\$ 1,410.7</u>	<u>\$ 2,686.9</u>

Michigan
Notes to the Financial Statements

NOTE 22 – DISAGGREGATION OF PAYABLES

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

	General Fund	School Aid Fund	Non-major Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-major Enterprise Funds	Total
Medicaid Programs	\$ 557.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 557.3
Non-Medicaid Health Programs	200.5	-	-	-	-	-	-	200.5
Human Services Programs	174.9	-	.1	-	-	-	-	175.0
Transportation Programs	-	-	480.0	-	-	-	-	480.0
School Aid Programs	-	134.9	-	-	-	-	-	134.9
Other State Programs	281.9	-	36.2	-	-	-	-	318.1
Merit Award Scholarships	-	-	28.1	-	-	-	-	28.1
Payroll and Withholdings	163.5	-	21.1	-	.6	-	.5	185.6
Tax Refunds other than Income Tax	98.2	4.5	3.9	-	-	-	-	106.6
Unearned Receipts	102.1	-	10.1	-	-	-	-	112.2
Amounts Held for Others	28.9	-	20.5	-	1.0	-	-	50.4
Capital Project Related	-	-	31.4	-	-	-	-	31.4
Prize Awards	-	-	-	-	120.7	-	-	120.7
Liquor Purchase	-	-	-	-	-	-	63.7	63.7
Unemployment Payments	-	-	-	-	-	28.0	-	28.0
Internal Service Fund Liabilities	-	-	-	90.3	-	-	-	90.3
Due to Fiduciary Funds*	-	-	-	38.2	-	-	-	38.2
Miscellaneous	-	-	-	-	8.5	-	.2	8.7
Total	\$ 1,607.3	\$ 139.4	\$ 631.4	\$ 128.5	\$ 130.8	\$ 28.0	\$ 64.3	\$ 2,729.8

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

NOTE 23 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

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

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

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

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

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

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

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

The other three claims involve statutes that were enacted after the Court's 1997 Durant I decision. The Court ruled that two of these post-Durant I statutes are not new mandates because the activities are either not new or are merely permissive. The third claim involves the record keeping activities and the operation of the Center for Educational Performance and Information, which was created by Executive Order in 2000 (MCL 388.1752; EO 2000-9). Plaintiffs alleged that the statute and Executive Order require districts to create and maintain student data following State-specified data-gathering procedures and transmit the data electronically to the State. The Supreme Court ruled that the plaintiffs' allegation that districts had to now actively participate in maintaining data that the State requires for its own purposes presents a colorable claim under the Headlee Amendment. The Court reversed the Court of Appeals' dismissal of the claim and remanded the issue to the Court of Appeals to determine whether this claim constitutes a new State-mandated activity in violation of the Headlee Amendment.

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

On March 8, 2006, the Supreme Court issued an order vacating the August 4, 2005, Court of Appeals decision and remanded the issue to the Court of Appeals for reevaluation of the record keeping claim. The Court of Appeals appointed a Special Master to oversee discovery and make proposed findings to the Court of Appeals. Discovery is in progress.

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

Three public transit authorities intervened in the suit, asserting a single claim identical to that alleged by Plaintiffs with respect to the CTF. The Plaintiffs and Intervenor obtained two injunctions from the Ingham County Circuit. One injunction barred the State from diverting \$20 million to the General Fund from the Michigan Transportation Fund (MTF) and the other barred the State from diverting \$12.8 million to the General Fund from the CTF. On January 13, 2004, in a published opinion, the Court of Appeals vacated the CTF injunction, and remanded for dismissal, holding that Executive Order 2001-9 legitimately diverted \$12.8 million from the CTF to the General Fund. On the same day, in an unpublished opinion, the Court of Appeals reversed in part and affirmed in part the MTF injunction, holding that \$12.5 million was legitimately diverted from the MTF to the General Fund but that the remainder was not.

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

On January 30, 2006, the Supreme Court denied the Defendants' application for leave to appeal. Therefore, the Court of Appeals' decision that \$12.5 million was legitimately diverted from the MTF to the General Fund, but that \$7.5 million was not, stands. The remaining issues in the case will go to trial in the Ingham Circuit Court in July 2007. At this stage, the amount in controversy is at least \$27.3 million and may be as much as \$47.3 million if the trial court concludes the matters decided by the Court of Appeals are to be relitigated. The State will argue that these Court of Appeals determinations should not be relitigated under the "law of the case" doctrine.

Comben v State of Michigan: Plaintiff Antrim County Treasurer sought a declaratory ruling whether owners of severed oil and gas interests were entitled to notice of tax foreclosures under the new tax foreclosure process adopted in MCL 211.78. The trial court held that under the general property tax act, the severance tax act, and the dormant minerals act, severed oil and gas rights are not subject to taxation and foreclosure. The Court of Appeals affirmed as to the severance tax act and the dormant minerals act. The Supreme Court vacated the Court of Appeals decision on the basis the State was not affected by the trial court's decision and lacked standing to appeal.

Black Stone Minerals Co v State of Michigan: A quiet title class action, severed from Comben v State of Michigan, seeks to quiet title to oil and gas rights acquired by the State by tax foreclosure after the oil and gas rights were severed from the surface ownership. The action was combined with a Court of Claims class action, with the same parties, seeking damages for severed oil and gas interests sold by the State after tax foreclosure. The State holds approximately 5.9 million acres of mineral rights, the vast majority of which were acquired by tax foreclosure. The trial court held that under the general property tax act, the severance tax act, and the dormant minerals act, severed oil and gas rights are not subject to taxation and foreclosure. Plaintiff originally projected as many as 250,000 acres of the State's oil and gas ownership were severed before tax foreclosure. Trial on the quiet title action was completed in 2006, with less than 7,000 acres of oil and gas claimed by the State determined to have been severed before tax foreclosure. Trial on the damage claim is scheduled for 2007. Although it is extremely difficult to quantify the State's exposure this early in the damage phase, it appears possible that damages at the trial level will be between \$10 and \$25 million.

Automobile Use Tax Revenue: Automobile manufacturers have filed a claim against the State, requesting a refund of use tax paid on vehicles used and resold. The Court of Appeals ruled for the plaintiff, stating that the usage is not subject to tax. The State seeks to appeal to the Supreme Court. The claim totals \$65.4 million.

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, 2006, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Federal sanctions that may result in a loss to the State include \$17.6 million for the Food Stamp Program.

Gain Contingencies

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

In November 1998, the Attorney General joined 45 other states and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek restitution for monies spent by the states under Medicaid and other health care programs for treatment of smoking-related diseases and conditions. Michigan's share of the settlement is expected to be \$8.5 billion over the next 25 years, and then \$350.0 million per year, adjusted for inflation and other factors, in perpetuity. While Michigan's percentage share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments. As the market share of the participating manufacturers shifts to companies that are not participating in the settlement, the participating companies are entitled to an adjustment. A state, however, may negate the effects of the market share adjustment by either demonstrating that it diligently enforced the escrow requirements, tax laws, and other statutes against the non-participating tobacco manufacturers. The states are currently in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the master settlement agreement. At best, Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for future payments.

Construction Projects

The Department of Transportation has entered into construction contracts that will be paid with transportation related funds. As of September 30, 2006, the balances remaining in these contracts equaled \$765.2 million.

Contingent Liability for Local School District Bonds

Michigan Compiled Laws Section 388.1924, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of September 30, 2006, the principal amount of qualified bonds outstanding was \$13.9 billion. Total debt service requirements on these bonds including interest will approximate \$1.3 billion in 2007. 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, 2006, is \$655.9 million. Interest due on these loans as of September 30, 2006, is \$121.8 million.

Discretely Presented Component Units

Student Loan Guarantees

The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State, other than MHEAA, is not liable for these loans. The MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 2006. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2006, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993, to September 30, 1998. In the event of future adverse default experience, MHEAA could be liable for up to 25% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. At the beginning of each fiscal year, MHEAA's reinsurance rate returns to 98%.

For loans made on or after October 1, 1998, the reinsurance rate will be 95%. In the event of future adverse default experience, MHEAA could be liable for up to 25% of such defaulted loans. Accordingly, MHEAA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 2006, is \$911.6 million.

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the MHEAA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. The MHEAA was in compliance with this requirement as of September 30, 2006.

Multi-Family Mortgage Loans

As of June 30, 2006, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$75.6 million and single-family mortgage loans in the amount of \$21.7 million.

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

NOTE 24 – RISK MANAGEMENT

Primary Government

General

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

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

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2006, expenditures for payments to former State employees (not including university employees) totaled \$12.1 million. The potential liability for future payments cannot be estimated.

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

Risk Management Fund

This fund was established during fiscal year 1990 to account for insurance management activities implemented within the Department of Management and Budget. The automotive liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of \$6.3 million. This includes a long-term portion, which is recorded at \$3.8 million. Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2006 and 2005 are as follows (in millions):

	2006	2005
Balance - beginning	\$ 5.9	\$ 7.5
Current year claims and changes in estimates	1.8	1.3
Claim payments	(1.4)	(2.9)
Balance - ending	\$ 6.3	\$ 5.9

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, 2006 and 2005, are as follows (in millions):

	2006	2005
Balance - beginning	\$ 106.6	\$ 106.5
Current year claims and changes in estimates	28.9	23.8
Claim payments	(23.7)	(23.7)
Balance - ending	\$ 111.8	\$ 106.6

Workers' Compensation is further described in Note 14.

State Sponsored Group Insurance Fund

The Department of Management and Budget uses this fund to account for employee and retiree insurance benefit programs, which are largely self-funded. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$161.9 million. This includes a long-term portion, which is recorded at a discounted present value of \$80.7 million using a discount rate of 10.5% (first 10 years of disability), 9.0% (next 10 years), and 6.0% thereafter for claims incurred prior to January 1, 1993. Claims incurred in past years were discounted using rates as follows in the calculation of incurred but not reported claims: 1993 and 1994 used a rate of 6.0%, 1995 used a rate of 6.25%, 1996 and 1997 used a rate of 5.75%, and 1998 through 2002 used a rate of 5.25%, 2003 through 2005 used a rate of 5.50%, and 2006 used a rate of 5.75%.

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 \$80.3 million at September 30, 2006. Unrestricted net assets totaled \$61.8 million at September 30, 2006.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee and retiree insurance benefit programs for the fiscal years ending September 30, 2006 and 2005 are as follows (in millions):

	2006	2005
Balance - beginning	\$ 167.3	\$ 167.9
Current year claims and changes in estimates	941.6	889.1
Claim payments	(946.9)	(889.7)
Balance - ending	\$ 161.9	\$ 167.3

Discretely Presented Component Units

State Universities

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

NOTE 25 – SUBSEQUENT EVENTS

Short-Term Borrowing

On December 13, 2006, the State issued its \$1.3 billion State of Michigan Full Faith and Credit General Obligation Notes, Fiscal Year 2007, Series A. The notes will mature on September 28, 2007, with an interest rate of 4.25%.

The Michigan Unemployment Compensation Fund obtained Federal Advances from the U.S. Department of Labor in accordance with provisions of Section 1201 of the Social Security Act in the first quarter of calendar year 2007. The total amount advanced and outstanding is \$357.6 million.

Contingent Liabilities

A taxpayer has advised the State of an overpayment of Sales, Use, and Withholding taxes. The overpayment is estimated at \$37 million to \$100 million.

A taxpayer has filed a claim for an overpayment of Single Business Tax. The refund amount requested is \$43.2 million.

As a result of a Treasury audit that reduced state aid to a local school district, the school district has requested a payment of \$5.3 million, claiming they had already paid a portion of the reduction.

Michigan
Notes to the Financial Statements

Long-Term Borrowing - Discretely Presented Component Units

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

	<u>Bonds Issued</u>
Michigan Higher Education Facilities Authority	\$ 95.5
Michigan State Hospital Finance Authority	221.6
Michigan State Housing Development Authority	131.6
Michigan Municipal Bond Authority	150.0
Michigan Technological University	3.0
Saginaw Valley State University	<u>24.4</u>
Total	<u>\$ 626.0</u>

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

Disbursements to Local Units of Government - Discretely Presented Component Units

On October 24, 2006, funds totaling \$18.5 million were disbursed to qualified schools from the School Loan Revolving Fund.

The Michigan Municipal Bond Authority has entered into agreements with 101 communities to fund grants in the amount of \$36.3 million.





II. FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2006
 (In Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Beginning budgetary fund balance	\$ 835,452	\$ 835,452	\$ 835,452	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	8,107,900	8,359,614	8,359,614	-
Federal	35,000	20,077	20,077	-
Local	2,000	207	207	-
Licenses and permits	54,000	50,661	50,661	-
Services	18,000	8,035	8,035	-
Miscellaneous	112,300	269,494	269,494	-
Proceeds from sale of capital assets	-	11	11	-
Transfers in	145,500	159,106	159,106	-
Restricted Revenues:				
Taxes	2,817,725	3,449,608	3,449,608	-
Federal	9,877,021	9,518,341	9,518,341	-
Local	323,914	198,979	198,979	-
Licenses and permits	319,322	224,402	224,402	-
Services	270,048	258,112	258,112	-
Miscellaneous	745,552	477,647	477,647	-
Proceeds from sale of capital assets	-	1,328	1,328	-
Transfers in	40,993	96,938	96,938	-
Total Revenue Inflows	<u>22,869,275</u>	<u>23,092,561</u>	<u>23,092,561</u>	<u>-</u>
Amounts Available for Appropriation	<u>23,704,727</u>	<u>23,928,013</u>	<u>23,928,013</u>	<u>-</u>
Charges to Appropriations (outflows):				
Legislative Branch	143,571	128,585	128,313	272
Judicial Branch	255,382	243,698	243,512	186
Executive Branch:				
Agriculture	119,178	89,087	88,752	335
Attorney General	63,821	59,873	59,726	147
Civil Rights	13,159	13,736	13,703	34
Civil Service	35,942	29,179	28,747	432
Colleges and Universities Grants	1,870,223	1,860,087	1,858,001	2,087
Community Health	10,203,894	10,274,197	10,212,788	61,409
Corrections	1,841,348	1,846,032	1,840,959	5,073
Education	163,830	135,622	134,470	1,152
Environmental Quality	410,516	186,761	186,186	576
Executive Office	5,376	5,376	5,329	46
History, Arts & Libraries	53,219	52,473	51,325	1,148
Human Services	4,423,855	4,352,364	4,350,989	1,375
Labor and Economic Growth	869,022	770,515	770,088	427
Management and Budget	176,742	230,393	226,497	3,896
Military and Veterans Affairs	111,597	114,058	112,900	1,158
Natural Resources	95,832	85,415	84,906	509
State	205,381	235,379	233,157	2,221
State Police	555,960	491,758	493,206	(1,448)
Transportation	-	-	-	-
Treasury	1,794,199	2,895,864	2,883,293	12,571
Intrafund expenditure reimbursements	-	(553,065)	(553,065)	-
Total Charges to Appropriations	<u>23,412,043</u>	<u>23,547,389</u>	<u>23,453,781</u>	<u>93,609</u>
Reconciling Items:				
Change in noncurrent assets	-	129,207	129,207	-
Net Reconciling Items	-	129,207	129,207	-
Ending Budgetary Fund Balance	<u>\$ 292,684</u>	<u>\$ 509,831</u>	<u>\$ 603,440</u>	<u>\$ 93,609</u>

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

BUDGET-TO-GAAP RECONCILIATION

SEPTEMBER 30, 2006

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND
Sources/inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 23,928,013	\$ 2,017	\$ 12,684,032
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.	(835,452)	(1,953)	(93,668)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(1,339)	-	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(256,044)	-	(750,731)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 22,835,178</u>	<u>\$ 65</u>	<u>\$ 11,839,632</u>
Uses/outflows of resources			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 23,453,781	\$ -	\$ 12,680,471
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.	22,933	-	509
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(393,535)	-	(44,500)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	30,086	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 23,113,264</u>	<u>\$ -</u>	<u>\$ 12,636,481</u>

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

Statutory/Budgetary Presentation

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

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

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

The budgetary comparison schedule presented for the General Fund, the Budget Stabilization Fund, and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2006, 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, 2005, and includes multi-year projects budgetary carry-forwards from the prior fiscal year.

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

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

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

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

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

Statutory/Budgetary Reconciliation

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

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

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

Statewide Authorization Dispositions

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

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State’s network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,521 lane miles of roads and 4,729 bridges (spans in excess of 20 feet).

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

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

Roads

Measurement Scale

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

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

Established Condition Level

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

Assessed Conditions

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

Rating	2005	2004	2003	2002	2001
Good	81.4%	81.0%	80.0%	78.1%	78.0%
Poor	18.6%	19.0%	20.0%	21.9%	22.0%

Bridges

Measurement Scale

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

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

Established Condition Level

No more than 35% of the highway bridges shall be rated as “structurally deficient.”

Assessed Conditions

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

Calendar Year	Structurally Deficient
2005	15.2%
2004	15.8%
2003	16.6%
2002	20.3%
2001	20.9%

Budgeted and Estimated Costs to Maintain

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

Fiscal Year	Estimated Spending	Actual Spending
2007	\$1,013.0	-
2006	\$1,109.0	\$1,131.4
2005	\$932.0	\$1,072.3
2004	\$921.0	\$857.6
2003	\$873.6	\$791.3
2002	\$993.3	\$798.2

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





II. FINANCIAL SECTION

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

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
 SEPTEMBER 30, 2006
 (In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 349	\$ -	\$ -	\$ -	\$ 349
Equity in common cash	692,052	1,465	1,906	141,424	836,847
Taxes, interest, and penalties receivable	106,639	-	-	-	106,639
Amounts due from other funds	1,403,946	-	8,553	-	1,412,499
Amounts due from component units	1,500	-	2,543	-	4,043
Amounts due from federal agencies	159,692	-	-	-	159,692
Amounts due from local units	90,043	-	4,943	31	95,017
Inventories	7,256	-	-	-	7,256
Investments	31,799	182,096	13,791	-	227,686
Securities lending collateral	43,274	-	-	153,064	196,338
Other current assets	229,227	925	7,669	13,140	250,961
Total Current Assets	<u>2,765,777</u>	<u>184,486</u>	<u>39,405</u>	<u>307,658</u>	<u>3,297,327</u>
Taxes, interest, and penalties receivable	1,923	-	-	-	1,923
Amounts due from local units	47,738	-	-	-	47,738
Investments	183,528	6,000	-	466,548	656,075
Other noncurrent assets	5,308	-	-	-	5,308
Total Assets	<u>\$ 3,004,274</u>	<u>\$ 190,486</u>	<u>\$ 39,405</u>	<u>\$ 774,206</u>	<u>\$ 4,008,371</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 7,504	\$ 1	\$ 164	\$ 358	\$ 8,026
Obligations under security lending	43,274	-	-	153,064	196,338
Accounts payable and other liabilities	579,210	334	35,161	16,656	631,361
Amounts due to other funds	173,968	-	34,672	80	208,720
Bonds and notes payable	-	-	57,000	-	57,000
Interest payable	-	-	326	-	326
Deferred revenue	237,206	-	-	1,330	238,536
Total Current Liabilities	<u>1,041,161</u>	<u>335</u>	<u>127,323</u>	<u>171,488</u>	<u>1,340,306</u>
Long-Term Liabilities:					
Deferred revenue	6,321	-	-	-	6,321
Total Liabilities	<u>1,047,482</u>	<u>335</u>	<u>127,323</u>	<u>171,488</u>	<u>1,346,628</u>
Fund Balances:					
Reserved fund balance	1,090,670	300	-	558,927	1,649,898
Unreserved fund balance (deficit)	866,121	189,851	(87,918)	43,791	1,011,845
Total Fund Balances	<u>1,956,792</u>	<u>190,151</u>	<u>(87,918)</u>	<u>602,718</u>	<u>2,661,743</u>
Total Liabilities and Fund Balances	<u>\$ 3,004,274</u>	<u>\$ 190,486</u>	<u>\$ 39,405</u>	<u>\$ 774,206</u>	<u>\$ 4,008,371</u>

Michigan

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

FISCAL YEAR ENDED SEPTEMBER 30, 2006

(In Thousands)

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTALS
REVENUES					
Taxes	\$ 1,995,725	\$ -	\$ -	\$ -	\$ 1,995,725
From federal agencies	1,260,863	-	-	-	1,260,863
From local agencies	18,536	-	-	-	18,536
From services	3,447	-	-	-	3,447
From licenses and permits	162,497	-	-	-	162,497
Miscellaneous	625,503	6,940	2,216	83,078	717,737
Total Revenues	4,066,570	6,940	2,216	83,078	4,158,803
EXPENDITURES					
Current:					
General government	234,467	559	516	1,888	237,429
Education	149,002	8,803	39,507	-	197,311
Human services	3,903	-	-	-	3,903
Public safety and corrections	212	-	-	1,848	2,061
Conservation, environment, recreation, and agriculture	283,029	-	3	15,933	298,966
Labor, commerce, and regulatory	193,716	-	-	-	193,716
Health services	96,718	-	-	-	96,718
Transportation	2,082,685	161	-	-	2,082,846
Capital outlay	1,205,008	-	173,653	35,217	1,413,878
Debt Service:					
Bond principal retirement	-	773,826	-	-	773,826
Bond interest and fiscal charges	174	293,918	-	-	294,093
Capital lease payments	616	-	-	-	616
Total Expenditures	4,249,531	1,077,267	213,679	54,886	5,595,363
Excess of Revenues over (under) Expenditures	(182,961)	(1,070,327)	(211,464)	28,192	(1,436,559)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	988,871	-	464,735	-	1,453,606
Premium on bond issuance	15,908	25,474	4,852	-	46,234
Discount on bond issuance	(22)	(496,444)	-	-	(496,466)
Refunding bonds issued	-	1,494,050	-	-	1,494,050
Capital lease acquisitions	3,973	-	-	-	3,973
Payment to refunded bond escrow agent	-	(563,776)	-	-	(563,776)
Proceeds from sale of capital assets	2,650	-	9,862	123	12,635
Transfers from other funds	1,495,072	606,851	19,074	10,000	2,130,996
Transfers to other funds	(1,797,938)	(564)	(25,334)	(10,085)	(1,833,921)
Total Other Financing Sources (Uses)	708,514	1,065,592	473,189	38	2,247,332
Excess of Revenues and Other Sources over (under) Expenditures Other Uses	525,553	(4,735)	261,725	28,229	810,772
Fund Balances - Beginning of fiscal year	1,431,239	194,886	(349,643)	574,489	1,850,971
Fund Balances - End of fiscal year	\$ 1,956,792	\$ 190,151	\$ (87,918)	\$ 602,718	\$ 2,661,743

BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 2006
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 153	\$ 190	\$ 6	\$ -	\$ 349
Equity in common cash	161,811	257,466	55,976	216,799	692,052
Taxes, interest, and penalties receivable	106,407	232	-	-	106,639
Amounts due from other funds	1,187,567	-	8,520	207,859	1,403,946
Amounts due from component units	1,379	118	-	3	1,500
Amounts due from federal agencies	144,858	960	13,874	-	159,692
Amounts due from local units	88,831	1,211	-	-	90,043
Inventories	7,028	228	-	-	7,256
Investments	-	-	-	31,799	31,799
Securities lending collateral	-	33,191	-	10,083	43,274
Other current assets	14,895	7,109	3,198	204,025	229,227
Total Current Assets	<u>1,712,929</u>	<u>300,706</u>	<u>81,575</u>	<u>670,567</u>	<u>2,765,777</u>
Taxes, interest, and penalties receivable	1,923	-	-	-	1,923
Amounts due from local units	42,264	5,474	-	-	47,738
Investments	-	107,711	-	75,816	183,528
Other noncurrent assets	3,312	643	-	1,353	5,308
Total Assets	<u>\$ 1,760,427</u>	<u>\$ 414,534</u>	<u>\$ 81,575</u>	<u>\$ 747,737</u>	<u>\$ 3,004,274</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 5,424	\$ 891	\$ 688	\$ 500	\$ 7,504
Obligations under security lending	-	33,191	-	10,083	43,274
Accounts payable and other liabilities	502,414	30,832	17,339	28,625	579,210
Amounts due to other funds	163,130	1,316	9,482	40	173,968
Deferred revenue	27,155	958	6,115	202,978	237,206
Total Current Liabilities	<u>698,123</u>	<u>67,188</u>	<u>33,624</u>	<u>242,226</u>	<u>1,041,161</u>
Long-Term Liabilities:					
Deferred revenue	5,235	643	-	443	6,321
Total Liabilities	<u>703,358</u>	<u>67,831</u>	<u>33,624</u>	<u>242,669</u>	<u>1,047,482</u>
Fund Balances:					
Reserves For:					
Budgetary Carry-Forwards:					
Encumbrances	126,802	17,874	363	11	145,049
Restricted revenues	195,121	40,018	12,690	-	247,828
Multi-year projects	356,624	36,196	-	-	392,820
Construction and debt service	85,121	-	-	-	85,121
Revolving loan programs	34,518	20,723	-	-	55,241
Funds held as permanent investments	-	114,359	-	20,511	134,871
Noncurrent assets	28,831	-	-	910	29,741
Total Reserved	<u>827,016</u>	<u>229,169</u>	<u>13,053</u>	<u>21,432</u>	<u>1,090,670</u>
Unreserved	230,054	117,534	34,898	483,636	866,121
Total Fund Balances	<u>1,057,069</u>	<u>346,704</u>	<u>47,951</u>	<u>505,068</u>	<u>1,956,792</u>
Total Liabilities and Fund Balances	<u>\$ 1,760,427</u>	<u>\$ 414,534</u>	<u>\$ 81,575</u>	<u>\$ 747,737</u>	<u>\$ 3,004,274</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2006

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 1,995,393	\$ 332	\$ -	\$ -	\$ 1,995,725
From federal agencies	1,124,346	3,146	132,289	1,081	1,260,863
From local agencies	18,536	-	-	-	18,536
From services	3,447	-	-	-	3,447
From licenses and permits	51,285	101,076	10,135	-	162,497
Miscellaneous	101,027	76,118	67,367	380,990	625,503
Total Revenues	3,294,034	180,672	209,792	382,071	4,066,570
EXPENDITURES					
Current:					
General government	-	483	17,168	216,816	234,467
Education	-	-	-	149,002	149,002
Human services	-	-	-	3,903	3,903
Public safety and corrections	-	-	-	212	212
Conservation, environment, recreation, and agriculture	-	283,029	-	-	283,029
Labor, commerce, and regulatory	-	-	193,716	-	193,716
Health services	-	-	-	96,718	96,718
Transportation	2,082,685	-	-	-	2,082,685
Capital outlay	1,195,178	9,830	-	-	1,205,008
Debt Service:					
Bond interest and fiscal charges	-	174	-	-	174
Capital lease payments	151	-	465	-	616
Total Expenditures	3,278,014	293,517	211,349	466,651	4,249,531
Excess of Revenues over (under) Expenditures	16,020	(112,845)	(1,557)	(84,580)	(182,961)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	279,540	152,000	-	557,331	988,871
Premium on bond issuance	12,388	3,520	-	-	15,908
Discount on bond issuance	-	-	-	(22)	(22)
Capital lease acquisitions	-	-	3,973	-	3,973
Proceeds from sale of capital assets	2,650	-	-	-	2,650
Transfers from other funds	1,061,431	25,829	6,812	401,000	1,495,072
Transfers to other funds	(1,325,392)	(49,065)	(18,759)	(404,722)	(1,797,938)
Total Other Financing Sources (Uses)	30,617	132,284	(7,974)	553,587	708,514
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	46,637	19,439	(9,530)	469,007	525,553
Fund Balances - Beginning of fiscal year	1,010,433	327,265	57,481	36,060	1,431,239
Fund Balances - End of fiscal year	\$ 1,057,069	\$ 346,704	\$ 47,951	\$ 505,068	\$ 1,956,792

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2006
(In Thousands)

Statutory/Budgetary Basis	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,995,393	\$ 1,995,393	\$ -	\$ 332	\$ 332	\$ -
From federal agencies	851,800	851,800	-	3,043	3,043	-
From local agencies	16,140	16,140	-	-	-	-
From services	3,447	3,447	-	-	-	-
From licenses and permits	51,285	51,285	-	101,076	101,076	-
Miscellaneous	83,584	83,584	-	34,218	34,218	-
Bonds and notes issued	-	-	-	-	-	-
Proceeds from sale of capital assets	2,650	2,650	-	-	-	-
Transfers in	1,061,431	1,061,431	-	25,829	25,829	-
Total Revenues and Other Sources	4,065,730	4,065,730	-	164,499	164,499	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Colleges and Universities Grants	-	-	-	-	-	-
Community Health	-	-	-	-	-	-
Education	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Labor and Economic Growth	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	-	-	-	192,907	182,456	10,451
Transportation	4,368,531	4,206,581	161,950	-	-	-
Treasury	-	-	-	24	24	-
Total Expenditures, Transfers Out, and Encumbrances	4,368,531	4,206,581	161,950	192,930	182,480	10,451
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (302,802)	(140,852)	\$ 161,950	\$ (28,432)	(17,981)	\$ 10,451
Reconciling Items:						
Encumbrances at September 30		126,802			16,008	
Funds not annually budgeted		60,687			21,411	
Net Reconciling Items		187,488			37,420	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		46,637			19,439	
FUND BALANCES (GAAP BASIS)						
Beginning balances		1,010,433			327,265	
Ending balances (GAAP Basis)		\$ 1,057,069			\$ 346,704	

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REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,995,725	\$ 1,995,725	\$ -
132,289	132,289	-	1,081	1,081	-	988,213	988,213	-
-	-	-	-	-	-	16,140	16,140	-
-	-	-	-	-	-	3,447	3,447	-
10,135	10,135	-	-	-	-	162,497	162,497	-
37,698	37,698	-	257,612	257,612	-	413,113	413,113	-
-	-	-	490,501	490,501	-	490,501	490,501	-
-	-	-	-	-	-	2,650	2,650	-
6,812	6,812	-	401,000	401,000	-	1,495,072	1,495,072	-
<u>186,934</u>	<u>186,934</u>	<u>-</u>	<u>1,150,194</u>	<u>1,150,194</u>	<u>-</u>	<u>5,567,357</u>	<u>5,567,357</u>	<u>-</u>
-	-	-	387	387	-	387	387	-
-	-	-	146,500	136,642	9,858	146,500	136,642	9,858
-	-	-	96,718	96,718	-	96,718	96,718	-
-	-	-	16,359	16,359	-	16,359	16,359	-
-	-	-	4,418	3,896	522	4,418	3,896	522
165,427	162,450	2,977	-	-	-	165,427	162,450	2,977
-	-	-	969	212	757	969	212	757
-	-	-	-	-	-	192,907	182,456	10,451
-	-	-	-	-	-	4,368,531	4,206,581	161,950
34,481	34,481	-	896,719	427,627	469,092	931,223	462,131	469,092
<u>199,908</u>	<u>196,931</u>	<u>2,977</u>	<u>1,162,070</u>	<u>681,842</u>	<u>480,229</u>	<u>5,923,440</u>	<u>5,267,834</u>	<u>655,606</u>
<u>\$ (12,974)</u>	<u>(9,997)</u>	<u>\$ 2,977</u>	<u>\$ (11,876)</u>	<u>468,352</u>	<u>\$ 480,229</u>	<u>\$ (356,083)</u>	<u>299,523</u>	<u>\$ 655,606</u>
	363			11			143,184	
	104			644			82,846	
	<u>467</u>			<u>655</u>			<u>226,030</u>	
	<u>(9,530)</u>			<u>469,007</u>			<u>525,553</u>	
	57,481			36,060			1,431,239	
	<u>\$ 47,951</u>			<u>\$ 505,068</u>			<u>\$ 1,956,792</u>	



SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

STATE AERONAUTICS FUND

Established pursuant to MCL Section 259.34, this fund accounts for airport improvement projects. Financing consists primarily of aviation fuel taxes and federal contributions. Although subject to change in the future, annual appropriation acts have allowed any unobligated and unexpended balance at fiscal year-end to lapse and revert to the fund for appropriation in the following year.

STATE TRUNKLINE FUND

Established pursuant to MCL Section 247.661, this fund accounts for highway construction and maintenance. Its annual budget is subject to legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of federal aid, local participation, and transfers from the Michigan Transportation Fund. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. Although subject to change in the future, annual appropriation acts have allowed for any fund balance not otherwise reserved at fiscal year-end to be reserved for road and bridge construction.

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund. Receivables and payables between the State Trunkline Fund and the Blue Water Bridge Fund are presented as "Amounts due from other funds" and "Amounts due to other funds."

MICHIGAN TRANSPORTATION FUND

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

COMPREHENSIVE TRANSPORTATION FUND

Established pursuant to MCL Section 247.660, this fund accounts for the planning and development of public transportation systems within the State. Federal revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund provide financing for expenditures. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the fund for appropriation in the following year.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

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

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to MCL Section 247.668, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUNDS

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

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

SEPTEMBER 30, 2006

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ 152	\$ -	\$ 1
Equity in common cash	21,738	-	-	45,216
Taxes, interest, and penalties receivable	615	-	105,792	-
Amounts due from other funds	-	758,846	175,181	10,609
Amounts due from component units	-	1,379	-	-
Amounts due from federal agencies	30,298	80,011	-	6,979
Amounts due from local units	20,073	22,343	-	1,045
Inventories	-	7,028	-	-
Other current assets	49	8,391	6,391	65
Total Current Assets	<u>72,772</u>	<u>878,150</u>	<u>287,364</u>	<u>63,913</u>
Taxes, interest, and penalties receivable	-	-	1,923	-
Amounts due from local units	404	36,654	-	5,206
Other noncurrent assets	-	2,154	-	1,158
Total Assets	<u>\$ 73,176</u>	<u>\$ 916,958</u>	<u>\$ 289,287</u>	<u>\$ 70,277</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 1,457	\$ 3,396	\$ 342	\$ 93
Accounts payable and other liabilities	49,079	146,906	221,666	12,247
Amounts due to other funds	56	4,761	47,941	67
Deferred revenue	-	9,134	17,414	-
Total Current Liabilities	<u>50,592</u>	<u>164,196</u>	<u>287,364</u>	<u>12,407</u>
Long-Term Liabilities:				
Deferred revenue	-	2,154	1,923	1,158
Total Liabilities	<u>50,592</u>	<u>166,350</u>	<u>289,287</u>	<u>13,565</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	6,827	81,485	-	38,489
Restricted revenues	3,555	185,279	-	6,287
Multi-year projects	7,200	349,424	-	-
Construction and debt service	-	85,121	-	-
Revolving loan programs	2,200	20,468	-	11,850
Noncurrent assets	-	28,831	-	-
Total Reserved	<u>19,781</u>	<u>750,608</u>	<u>-</u>	<u>56,627</u>
Unreserved	<u>2,803</u>	<u>-</u>	<u>-</u>	<u>86</u>
Total Fund Balances	<u>22,584</u>	<u>750,608</u>	<u>-</u>	<u>56,712</u>
Total Liabilities and Fund Balances	<u>\$ 73,176</u>	<u>\$ 916,958</u>	<u>\$ 289,287</u>	<u>\$ 70,277</u>

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 153
-	94,858	-	161,811
-	-	-	106,407
242,932	-	-	1,187,567
-	-	-	1,379
914	-	26,655	144,858
3,340	-	42,030	88,831
-	-	-	7,028
-	-	-	14,895
<u>247,186</u>	<u>94,858</u>	<u>68,686</u>	<u>1,712,929</u>
-	-	-	1,923
-	-	-	42,264
-	-	-	3,312
<u>\$ 247,186</u>	<u>\$ 94,858</u>	<u>\$ 68,686</u>	<u>\$ 1,760,427</u>
\$ 3	\$ 6	\$ 127	\$ 5,424
25,774	5,226	41,516	502,414
83,262	-	27,043	163,130
606	-	-	27,155
<u>109,646</u>	<u>5,233</u>	<u>68,686</u>	<u>698,123</u>
-	-	-	5,235
<u>109,646</u>	<u>5,233</u>	<u>68,686</u>	<u>703,358</u>
-	-	-	126,802
-	-	-	195,121
-	-	-	356,624
-	-	-	85,121
-	-	-	34,518
-	-	-	28,831
-	-	-	827,016
<u>137,540</u>	<u>89,625</u>	<u>-</u>	<u>230,054</u>
<u>137,540</u>	<u>89,625</u>	<u>-</u>	<u>1,057,069</u>
<u>\$ 247,186</u>	<u>\$ 94,858</u>	<u>\$ 68,686</u>	<u>\$ 1,760,427</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2006

(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
REVENUES				
Taxes	\$ 5,974	\$ -	\$ 1,923,013	\$ 66,405
From federal agencies	117,398	709,456	-	24,945
From local agencies	27	16,113	-	-
From services	529	25	2,893	-
From licenses and permits	308	17,499	33,105	374
Miscellaneous	5,735	68,470	7,903	1,477
Total Revenues	129,971	811,563	1,966,913	93,201
EXPENDITURES				
Current:				
Transportation	132,774	571,756	957,447	225,477
Capital outlay	-	959,745	-	8
Debt service:				
Capital lease payments	-	151	-	-
Total Expenditures	132,774	1,531,652	957,447	225,485
Excess of Revenues over (under) Expenditures	(2,803)	(720,089)	1,009,466	(132,284)
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	-	-	-	-
Premium on bond issuance	-	-	-	-
Proceeds from sale of capital assets	17	2,633	-	-
Transfers from other funds	6,000	887,201	1,007	167,223
Transfers to other funds	(2,699)	(190,689)	(1,010,473)	(28,560)
Total Other Financing Sources (Uses)	3,318	699,145	(1,009,466)	138,663
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	515	(20,945)	-	6,379
Fund Balances - Beginning of fiscal year	22,069	771,553	-	50,333
Fund Balances - End of fiscal year	\$ 22,584	\$ 750,608	\$ -	\$ 56,712

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COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ 1,995,393
98,953	-	173,594	1,124,346
2,395	-	-	18,536
-	-	-	3,447
-	-	-	51,285
12,927	4,086	430	101,027
<u>114,275</u>	<u>4,086</u>	<u>174,024</u>	<u>3,294,034</u>
1,308	19,900	174,024	2,082,685
235,425	-	-	1,195,178
-	-	-	151
<u>236,733</u>	<u>19,900</u>	<u>174,024</u>	<u>3,278,014</u>
<u>(122,457)</u>	<u>(15,813)</u>	<u>-</u>	<u>16,020</u>
244,525	35,015	-	279,540
11,064	1,323	-	12,388
-	-	-	2,650
-	-	-	1,061,431
(92,971)	-	-	(1,325,392)
<u>162,619</u>	<u>36,338</u>	<u>-</u>	<u>30,617</u>
40,161	20,525	-	46,637
<u>97,379</u>	<u>69,100</u>	<u>-</u>	<u>1,010,433</u>
<u>\$ 137,540</u>	<u>\$ 89,625</u>	<u>\$ -</u>	<u>\$ 1,057,069</u>

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2006
(In Thousands)

<u>Statutory/Budgetary Basis</u>	STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 5,974	\$ 5,974	\$ -
From federal agencies	117,398	117,398	-
From local agencies	27	27	-
From services	529	529	-
From licenses and permits	308	308	-
Miscellaneous	5,735	5,735	-
Proceeds from sale of capital assets	17	17	-
Transfers in	6,000	6,000	-
Total Revenues and Other Sources	135,989	135,989	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	148,246	142,300	5,946
Total Expenditures, Transfers Out, and Encumbrances	148,246	142,300	5,946
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (12,257)	(6,312)	\$ 5,946
Reconciling Items:			
Encumbrances at September 30		6,827	
Funds not annually budgeted		-	
Net Reconciling Items		6,827	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		515	
FUND BALANCES (GAAP BASIS)			
Beginning balances		22,069	
Ending balances (GAAP Basis)		\$ 22,584	

Michigan

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 1,923,013	\$ 1,923,013	\$ -
709,456	709,456	-	-	-	-
16,113	16,113	-	-	-	-
25	25	-	2,893	2,893	-
17,499	17,499	-	33,105	33,105	-
68,470	68,470	-	7,903	7,903	-
2,633	2,633	-	-	-	-
887,201	887,201	-	1,007	1,007	-
1,701,397	1,701,397	-	1,967,920	1,967,920	-
1,855,127	1,803,827	51,299	2,063,417	1,967,920	95,497
1,855,127	1,803,827	51,299	2,063,417	1,967,920	95,497
<u>\$ (153,730)</u>	<u>(102,430)</u>	<u>\$ 51,299</u>	<u>\$ (95,497)</u>	-	<u>\$ 95,497</u>
	81,485			-	
	-			-	
	81,485			-	
	(20,945)			-	
	771,553			-	
	<u>\$ 750,608</u>			<u>\$ -</u>	

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED (Continued)**

FISCAL YEAR ENDED SEPTEMBER 30, 2006

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>COMPREHENSIVE TRANSPORTATION FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 66,405	\$ 66,405	\$ -
From federal agencies	24,945	24,945	-
From local agencies	-	-	-
From services	-	-	-
From licenses and permits	374	374	-
Miscellaneous	1,477	1,477	-
Proceeds from sale of capital assets	-	-	-
Transfers in	167,223	167,223	-
	<u>260,424</u>	<u>260,424</u>	<u>-</u>
Total Revenues and Other Sources	260,424	260,424	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>301,742</u>	<u>292,534</u>	<u>9,207</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>301,742</u>	<u>292,534</u>	<u>9,207</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (41,318)</u>	<u>(32,110)</u>	<u>\$ 9,207</u>
Reconciling Items:			
Encumbrances at September 30		38,489	
Funds not annually budgeted		-	
Net Reconciling Items		<u>38,489</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>6,379</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>50,333</u>	
Ending balances (GAAP Basis)		<u>\$ 56,712</u>	

FUNDS NOT ANNUALLY BUDGETED

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TRANSPORTATION RELATED TRUST FUNDS	TOTALS		
			BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ 1,995,393	\$ 1,995,393	\$ -
-	-	-	851,800	851,800	-
-	-	-	16,140	16,140	-
-	-	-	3,447	3,447	-
-	-	-	51,285	51,285	-
-	-	-	83,584	83,584	-
-	-	-	2,650	2,650	-
-	-	-	1,061,431	1,061,431	-
-	-	-	4,065,730	4,065,730	-
-	-	-	4,368,531	4,206,581	161,950
-	-	-	4,368,531	4,206,581	161,950
-	-	-	<u>\$ (302,802)</u>	<u>(140,852)</u>	<u>\$ 161,950</u>
-	-	-	-	126,802	-
40,161	20,525	-	-	60,687	-
40,161	20,525	-	-	187,488	-
40,161	20,525	-	-	46,637	-
97,379	69,100	-	-	1,010,433	-
<u>\$ 137,540</u>	<u>\$ 89,625</u>	<u>\$ -</u>	-	<u>\$ 1,057,069</u>	-

SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

GAME AND FISH PROTECTION FUND

Established in 1921, this fund operates under MCL Sections 324.43546, 324.43553, 324.43556, and 324.43557 and is financed principally by the sale of hunting and fishing licenses. The license fees are set by statute and their purpose is to support the conservation program for preservation and control of fish and wildlife. The fund also receives funding from the Game and Fish Protection Trust Fund. The fund provides financial support for statewide hunting and fishing programs, including resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes.

MICHIGAN STATE WATERWAYS FUND

Established in 1947, this fund operates under MCL Sections 324.78105, 324.78110, 324.78111, and 324.78115. The fund receives portions of watercraft registration fees and gasoline taxes, some of which are collected by other State agencies and transferred to this fund. The fund provides for improvement of lake harbors and inland waterways; construction, operation, and maintenance of recreational boating facilities; property acquisition; and administration.

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

MARINE SAFETY FUND

Established in 1967, this fund operates under MCL Sections 324.44511, 324.44518, 324.80115, 324.80118, and 324.80119. The fund is financed principally by 49% of watercraft registration fees imposed by this law. The fund provides for water safety education programs, law enforcement, and regulation of watercraft on the waters of this State.

GAME AND FISH PROTECTION TRUST FUND

This fund was established in 1986 and operates under MCL Section 324.43702, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund. In addition, the Legislature may appropriate up to \$6 million annually for use by the Game and Fish Protection Fund. Mineral royalties from lands acquired by the Game and Fish Protection Fund; direct sale proceeds; and other revenues, which, by statute, are retained for permanent investment, provide additional investment funding.

STATE PARK IMPROVEMENT FUND

Established in 1960, this fund operates under MCL Section 324.74108. The fund is primarily financed by State park use and concession fees and motor vehicle permit fees necessary for entry by motor vehicles into designated State parks. These fees are the primary funding source for the operation, maintenance, debt service, and improvements of the State Park system. Revenues of this fund are pledged as necessary for repayment of State Park Gross Revenue Bonds.

COMBINED RECREATION BOND FUND - LOCAL PROJECTS

Established in 1988, this fund operates under MCL Sections 324.19606, 324.19607, 324.71506, and 324.71508. The residual balances in this fund reflect proceeds and investment earnings remaining from two bond packages: \$70 million of general obligation bonds approved by voters in November 1988, as part of a \$140 million bond package for financing state and local public recreation projects, and \$50 million of general obligation bonds approved by voters in November of 1998, as part of a \$675 million bond package known as the "Clean Michigan Initiative." Proceeds from the 1988 bond package provide grants and loans to local units of government in the amounts of \$65 million for local recreation projects and \$5 million to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package also provided grants to local units of government for local recreation projects pursuant to MCL Section 324.71602.

COMBINED ENVIRONMENTAL PROTECTION BOND FUND

This fund, which is administered by the Department of Environmental Quality (DEQ), was established by MCL Section 324.19056 to account for the proceeds of \$660 million of Environmental Protection general obligation bonds approved by Michigan voters in November 1988. The statute specifies that the proceeds of these bonds be available to clean up sites of toxic and other environmental contamination, for solid waste projects, to capitalize the State Water Pollution Control Loan Fund, and to fund Michigan's participation in a regional Great Lakes Protection Fund.

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

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

MICHIGAN NONGAME FISH AND WILDLIFE FUND

Established in 1983, the fund currently operates under MCL Sections 324.43902 - 324.43907. Fund revenues are used to finance research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. The fund may receive transfers from other funds, donations, investment income, and revenue from specialty license plate sales.

FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under MCL Section 324.50507. The Authority is authorized to acquire standing timber, timber cutting rights, and the State's interest in contracts granting cutting rights on State tax reverted lands and on other lands in the State forest system. Revenues are derived from the sale of forest products, and are pledged to provide debt service on any bonds or notes that might be issued by the Authority. Revenues not used for debt service are major funding sources for the Forest, Mineral, and Fire Management Division and are used for forest management operations and practices. The Authority may, but thus far has not, issued bonds.

BOTTLE DEPOSITS FUND

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

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

Michigan Compiled Laws 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 the department or the Attorney General, or both, shall be credited to the ERF.

Michigan

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED**

SEPTEMBER 30, 2006

(In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
ASSETS					
Current Assets:					
Cash	\$ 4	\$ -	\$ -	\$ 4	\$ 89
Equity in common cash	23,254	40,938	2,573	8,297	8,900
Taxes, interest, and penalties receivable	-	232	-	-	-
Amounts due from component units	-	-	-	-	-
Amounts due from federal agencies	385	231	89	-	-
Amounts due from local units	-	-	-	-	-
Inventories	-	228	-	-	-
Securities lending collateral	250	-	-	30,777	-
Other current assets	4,391	13	3	1,659	80
Total Current Assets	<u>28,285</u>	<u>41,642</u>	<u>2,665</u>	<u>40,737</u>	<u>9,068</u>
Amounts due from local units	-	-	-	-	-
Investments	1,732	-	-	100,101	-
Other noncurrent assets	-	-	-	-	-
Total Assets	<u>\$ 30,016</u>	<u>\$ 41,642</u>	<u>\$ 2,665</u>	<u>\$ 140,839</u>	<u>\$ 9,068</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 150	\$ 76	\$ 38	\$ -	\$ 88
Obligations under security lending	250	-	-	30,777	-
Accounts payable and other liabilities	3,453	1,842	1,883	976	1,835
Amounts due to other funds	514	98	8	-	314
Deferred revenue	-	-	-	-	529
Total Current Liabilities	<u>4,367</u>	<u>2,016</u>	<u>1,928</u>	<u>31,754</u>	<u>2,766</u>
Long-Term Liabilities:					
Deferred revenue	-	-	-	-	-
Total Liabilities	<u>4,367</u>	<u>2,016</u>	<u>1,928</u>	<u>31,754</u>	<u>2,766</u>
Fund Balances:					
Reserves for:					
Budgetary Carry-Forwards:					
Encumbrances	1,842	11,512	115	-	924
Restricted revenues	12,972	-	-	-	-
Multi-year projects	676	25,180	-	-	1,717
Revolving loan programs	-	-	-	-	-
Funds held as permanent investments	1,668	-	-	103,085	-
Total Reserved	<u>17,158</u>	<u>36,692</u>	<u>115</u>	<u>103,085</u>	<u>2,641</u>
Unreserved	<u>8,491</u>	<u>2,935</u>	<u>622</u>	<u>6,000</u>	<u>3,661</u>
Total Fund Balances	<u>25,649</u>	<u>39,626</u>	<u>737</u>	<u>109,085</u>	<u>6,302</u>
Total Liabilities and Fund Balances	<u>\$ 30,016</u>	<u>\$ 41,642</u>	<u>\$ 2,665</u>	<u>\$ 140,839</u>	<u>\$ 9,068</u>

Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 92	\$ -	\$ 190
2,165	99,504	422	12,922	58,491	257,466
-	-	-	-	-	232
-	118	-	-	-	118
-	-	-	256	-	960
-	900	-	-	311	1,211
-	-	-	-	-	228
-	-	2,164	-	-	33,191
-	19	59	150	735	7,109
<u>2,165</u>	<u>100,541</u>	<u>2,644</u>	<u>13,421</u>	<u>59,538</u>	<u>300,706</u>
-	-	-	-	5,474	5,474
-	-	5,879	-	-	107,711
-	-	-	-	643	643
<u>\$ 2,165</u>	<u>\$ 100,541</u>	<u>\$ 8,523</u>	<u>\$ 13,421</u>	<u>\$ 65,655</u>	<u>\$ 414,534</u>
\$ -	\$ 460	\$ 3	\$ 28	\$ 48	\$ 891
-	-	2,164	-	-	33,191
113	13,336	59	2,972	4,364	30,832
-	23	2	187	169	1,316
-	-	-	-	429	958
<u>113</u>	<u>13,819</u>	<u>2,228</u>	<u>3,187</u>	<u>5,009</u>	<u>67,188</u>
-	-	-	-	643	643
<u>113</u>	<u>13,819</u>	<u>2,228</u>	<u>3,187</u>	<u>5,652</u>	<u>67,831</u>
-	-	19	1,597	1,865	17,874
-	-	-	-	27,046	40,018
-	-	-	1,904	6,718	36,196
-	-	-	-	20,723	20,723
-	-	5,956	-	3,650	114,359
-	-	5,976	3,501	60,002	229,169
<u>2,052</u>	<u>86,722</u>	<u>319</u>	<u>6,732</u>	<u>-</u>	<u>117,534</u>
<u>2,052</u>	<u>86,722</u>	<u>6,295</u>	<u>10,233</u>	<u>60,002</u>	<u>346,704</u>
<u>\$ 2,165</u>	<u>\$ 100,541</u>	<u>\$ 8,523</u>	<u>\$ 13,421</u>	<u>\$ 65,655</u>	<u>\$ 414,534</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, 2006

(In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
REVENUES					
Taxes	\$ -	\$ 332	\$ -	\$ -	\$ -
From federal agencies	2,213	389	89	-	-
From licenses and permits	49,897	6,811	4,762	-	39,606
Miscellaneous	3,277	2,583	228	15,553	308
Total Revenues	<u>55,387</u>	<u>10,115</u>	<u>5,078</u>	<u>15,553</u>	<u>39,913</u>
EXPENDITURES					
Current:					
General government	5	-	-	333	-
Conservation, environment, recreation, and agriculture	63,855	16,466	5,339	76	36,477
Bond interest and fiscal charges	-	-	-	-	-
Capital outlay	3,156	5,141	-	-	1,175
Total Expenditures	<u>67,017</u>	<u>21,608</u>	<u>5,339</u>	<u>409</u>	<u>37,652</u>
Excess of Revenues over (under) Expenditures	<u>(11,631)</u>	<u>(11,492)</u>	<u>(261)</u>	<u>15,144</u>	<u>2,262</u>
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	-	-
Premium on bond issuance	-	-	-	-	-
Transfers from other funds	11,414	14,415	-	-	-
Transfers to other funds	(380)	(164)	(13)	(11,414)	(1,336)
Total Other Financing Sources (Uses)	<u>11,034</u>	<u>14,251</u>	<u>(13)</u>	<u>(11,414)</u>	<u>(1,336)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(596)	2,758	(274)	3,730	925
Fund Balances - Beginning of fiscal year	<u>26,245</u>	<u>36,868</u>	<u>1,011</u>	<u>105,355</u>	<u>5,377</u>
Fund Balances - End of fiscal year	<u>\$ 25,649</u>	<u>\$ 39,626</u>	<u>\$ 737</u>	<u>\$ 109,085</u>	<u>\$ 6,302</u>

Michigan

COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 332
-	-	97	256	103	3,146
-	-	-	1	-	101,076
<u>103</u>	<u>3,306</u>	<u>587</u>	<u>27,236</u>	<u>22,938</u>	<u>76,118</u>
<u>103</u>	<u>3,306</u>	<u>683</u>	<u>27,493</u>	<u>23,040</u>	<u>180,672</u>
-	127	18	-	-	483
77	103,007	668	30,757	26,305	283,029
-	174	-	-	-	174
-	-	-	358	-	9,830
<u>77</u>	<u>103,309</u>	<u>686</u>	<u>31,115</u>	<u>26,305</u>	<u>293,517</u>
<u>26</u>	<u>(100,003)</u>	<u>(3)</u>	<u>(3,622)</u>	<u>(3,264)</u>	<u>(112,845)</u>
-	152,000	-	-	-	152,000
-	3,520	-	-	-	3,520
-	-	-	-	-	25,829
<u>(2)</u>	<u>(24)</u>	<u>(3)</u>	<u>(1,158)</u>	<u>(34,571)</u>	<u>(49,065)</u>
<u>(2)</u>	<u>155,496</u>	<u>(3)</u>	<u>(1,158)</u>	<u>(34,571)</u>	<u>132,284</u>
24	55,493	(6)	(4,779)	(37,835)	19,439
<u>2,028</u>	<u>31,229</u>	<u>6,301</u>	<u>15,013</u>	<u>97,838</u>	<u>327,265</u>
<u>\$ 2,052</u>	<u>\$ 86,722</u>	<u>\$ 6,295</u>	<u>\$ 10,233</u>	<u>\$ 60,002</u>	<u>\$ 346,704</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, 2006
(In Thousands)**

<u>Statutory/Budgetary Basis</u>	<u>GAME AND FISH PROTECTION FUND</u>			<u>MICHIGAN STATE WATERWAYS FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 332	\$ 332	\$ -
From federal agencies	2,213	2,213	-	389	389	-
From licenses and permits	49,897	49,897	-	6,811	6,811	-
Miscellaneous	3,277	3,277	-	2,583	2,583	-
Transfers in	11,414	11,414	-	14,415	14,415	-
Total Revenues and Other Sources	<u>66,800</u>	<u>66,800</u>	<u>-</u>	<u>24,530</u>	<u>24,530</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	73,786	69,234	4,552	34,881	33,284	1,597
Treasury	5	5	-	-	-	-
Total Expenditures, Transfers Out and Encumbrances	<u>73,791</u>	<u>69,239</u>	<u>4,552</u>	<u>34,881</u>	<u>33,284</u>	<u>1,597</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (6,991)</u>	<u>(2,439)</u>	<u>\$ 4,552</u>	<u>\$ (10,351)</u>	<u>(8,753)</u>	<u>\$ 1,597</u>
Reconciling Items:						
Encumbrances at September 30		1,842			11,512	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>1,842</u>			<u>11,512</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(596)</u>			<u>2,758</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>26,245</u>			<u>36,868</u>	
Ending balances (GAAP Basis)		<u>\$ 25,649</u>			<u>\$ 39,626</u>	

Michigan

MARINE SAFETY FUND			STATE PARK IMPROVEMENT FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
89	89	-	-	-	-
4,762	4,762	-	39,606	39,606	-
228	228	-	308	308	-
-	-	-	-	-	-
5,078	5,078	-	39,913	39,913	-
5,989	5,467	522	42,624	39,912	2,713
-	-	-	-	-	-
5,989	5,467	522	42,624	39,912	2,713
<u>\$ (911)</u>	<u>(389)</u>	<u>\$ 522</u>	<u>\$ (2,711)</u>	<u>2</u>	<u>\$ 2,713</u>
	115			924	
	-			-	
	115			924	
	(274)			925	
	1,011			5,377	
	<u>\$ 737</u>			<u>\$ 6,302</u>	

This schedule continued on next page.

Michigan

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2006
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN NONGAME FISH AND WILDLIFE FUND			FOREST DEVELOPMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	97	97	-	256	256	-
From licenses and permits	-	-	-	1	1	-
Miscellaneous	587	587	-	27,236	27,236	-
Transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	<u>683</u>	<u>683</u>	<u>-</u>	<u>27,493</u>	<u>27,493</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	712	691	21	34,914	33,869	1,045
Treasury	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>730</u>	<u>709</u>	<u>21</u>	<u>34,914</u>	<u>33,869</u>	<u>1,045</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (47)</u>	<u>(26)</u>	<u>\$ 21</u>	<u>\$ (7,421)</u>	<u>(6,376)</u>	<u>\$ 1,045</u>
Reconciling Items:						
Encumbrances at September 30		19			1,597	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>19</u>			<u>1,597</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(6)</u>			<u>(4,779)</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>6,301</u>			<u>15,013</u>	
Ending balances (GAAP Basis)		<u>\$ 6,295</u>			<u>\$ 10,233</u>	

Michigan

FUNDS NOT ANNUALLY BUDGETED

GAME AND FISH PROTECTION TRUST FUND	COMBINED RECREATION BOND FUND- LOCAL PROJECTS	COMBINED ENVIRONMENTAL PROTECTION BOND FUND	BOTTLE DEPOSITS FUND	TOTALS		
				BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ 332	\$ 332	\$ -
-	-	-	-	3,043	3,043	-
-	-	-	-	101,076	101,076	-
-	-	-	-	34,218	34,218	-
-	-	-	-	25,829	25,829	-
-	-	-	-	164,499	164,499	-
-	-	-	-	192,907	182,456	10,451
-	-	-	-	24	24	-
-	-	-	-	192,930	182,480	10,451
-	-	-	-	<u>\$ (28,432)</u>	<u>(17,981)</u>	<u>\$ 10,451</u>
-	-	-	-		16,008	
3,730	24	55,493	(37,835)		21,411	
3,730	24	55,493	(37,835)		37,420	
3,730	24	55,493	(37,835)		19,439	
105,355	2,028	31,229	97,838		327,265	
<u>\$ 109,085</u>	<u>\$ 2,052</u>	<u>\$ 86,722</u>	<u>\$ 60,002</u>		<u>\$ 346,704</u>	

