NOTE 21 – INTERFUND COMMITMENTS

A. Mackinac Bridge Authority

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

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

As of September 30, 1999, the Authority has repaid a total of $9 million of the advance from the Michigan Transportation Fund, leaving a balance of $54 million. No repayments have been made on the advance from the State Trunkline Fund.

NOTE 22 – EQUITY TRANSFERS AND CHANGES IN CONTRIBUTED CAPITAL

A. Equity Transfers

The General Fund received an equity transfer of $6.5 million from the Liquor Purchase Revolving Fund (an enterprise fund) during fiscal year 1998-99. The transfer of accumulated retained earnings and cash from the Liquor Purchase Revolving Fund that exceeds the fund's operating requirements is made at the discretion of the State Budget Director, with the authority of Public Act 431 of 1984, as amended.

The General Fund made a total of $17.4 million in equity transfers to component units during fiscal year 1998-99. Equity transfers of $13.0 million and $4.3 million were made to the Michigan Municipal Bond Authority (a discretely presented component unit) to provide revolving loan capital for the Water Pollution Control Loan Program and for state matching of federal funds.

Equity transfers totaling $.8 million were made from three different Self-Insured Disability Funds within the Miscellaneous Trust Accounts Fund (an expendable trust fund) to the Self-Insurers' Security Fund within the Miscellaneous Trust Accounts Fund. These equity transfers were made to comply with court orders to close the Self-Insured Disability Funds.

An equity transfer of $162.7 million was made from the Michigan Strategic Fund (a discretely presented component unit) to the Michigan Economic Development Corporation (a discretely presented component unit) in compliance with Executive Order 1999-01.

An equity transfer of $8.1 million was made from the Miscellaneous Trust Accounts Fund (an expendable trust fund) to the Michigan Strategic Fund (a discretely presented component unit) to transfer the net assets of the Michigan Urban Land Assembly in compliance with Executive Order 1999-01.

An equity transfer of $36.1 million was made within the Michigan Higher Education Assistance Authority (a discretely presented component unit) from a proprietary fund to a governmental fund to comply with federal legislation concerning federal student loans.

An equity transfer of $.1 million was made from the State Building Authority capital projects fund to the State Building Authority debt service fund to transfer net assets between bond issues.

B. Changes in Contributed Capital

The following table summarizes contributed capital transactions made during the year (in millions):

	Primary Government			Component Units			
	Correctional Industries Revolving Fund	Motor Transport Fund	Total	Michigan Higher Education Assistance Authority	Michigan Municipal Bond Authority	Michigan Economic Development Corporation	Total
Beginning balance	$ 1.5	$ 8.4	$ 9.9	$ 1.5	$ 634.1	$ -	$ 635.6
Contributed capital additions	.1	-	.1	-	-	-	-
Equity transfers from primary government	-	-	-	-	17.4	-	17.4
Equity transfers from component units	-	-	-	-	-	162.7	162.7
Federal grants	-	-	-	-	104.9	-	104.9
Ending balance	$ 1.5	$ 8.4	$ 10.0	$ 1.5	$ 756.3	$ 162.7	$ 920.5

Contributed capital was first recorded by the State as of the beginning of the 1986-87 fiscal year. The amounts contributed prior to 1986-87 are not reasonably determinable, except for the amounts related to the Motor Transport Fund and the Michigan Higher Education Assistance Authority. Contributions received in other funds prior to 1986-87 are reflected as retained earnings.

NOTE 23 – RETAINED EARNINGS

A. Designations – Primary Government

Retained earnings of $53.8 million in the State Sponsored Group Insurance Fund, an internal service fund, which is described in Note #27, has been designated for future catastrophic losses.

B. Reservations – Discretely Presented Component Units

Certain amounts of retained earnings of the discretely presented component units are reserved based upon restrictions placed upon the use of funds by external parties. The amounts as of September 30 are as follows (in millions):

Michigan Higher Education Student Loan Authority	$ 8.4
Mackinac Island State Park Commission	4.7
Michigan Economic Development Corporation	56.9
Michigan State Housing Development Authority	214.2
Total	$ 284.1

C. Fund Deficits

All proprietary type funds and discretely presented component units have positive retained earnings balances as of September 30, 1999.

NOTE 24 – FUND BALANCES

A. Reservations - Primary Government

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

	General	Special Revenue	Capital Projects	Pension Trust	Total
Budgetary carry-forwards:					
Encumbrances	$ 91.9	$ 90.3	$ -	$ -	$ 182.2
Restricted revenues	496.6	190.6	-	-	687.2
Multi-year projects (capital outlay and work projects)	675.7	256.0	-	-	931.7
Construction and debt service	-	35.9	10.4	-	46.3
Revolving loan programs	5.1	14.3	-	-	19.4
Funds held as permanent investments	-	378.1	-	-	378.1
Noncurrent assets	306.6	38.6	-	-	345.2
Pension and postemployment health-care benefits	-	-	-	48,586.5	48,586.5
Total Reserved Fund Balances	$ 1,576.0	$ 1,003.8	$ 10.4	$ 48,586.5	$ 51,176.7

Budgetary carry-forwards represent unused spending authorization which 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-forwards in the General Fund are related to local government revenue sharing ($196.6 million). Beginning in 1996, encumbrances in multi-year projects are recorded on the balance sheet in the reserve for encumbrances. Similar amounts in previous years had not been specifically identified, and were thus included in the broader reserve for multi-year projects. The $675.7 million of multi-year projects in the General Fund includes $405.0 million of capital outlay and $270.8 million of work project authorizations. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Construction and debt service reserves represent amounts which are restricted for State Trunkline Fund's debt service and State Building Authority projects that are in process.

Reserves for revolving loan programs represent fund balance which has been appropriated for the purpose of making loans that will encourage economic development 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."

The State does not record any reservations in expendable trust funds because the balances are all considered available for the purposes of the various funds. Also, no reservations of fund balances are recorded in single purpose special revenue and debt service funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

B. Reservations - Component Units

The line entitled "Reserved fund balance" on the Combined Balance Sheet consists entirely of reserves for restricted funds of State universities ($187.9 million).

C. Fund Deficits

Except for the funds described below, all governmental and fiduciary funds have positive ending unreserved fund balances.

The Michigan Underground Storage Tank Financial Assurance Fund, a special revenue fund, had an unreserved fund deficit of $37.7 million. The deficit was caused by appropriations and payment of claims which exceeded revenue to date.

The Michigan Underground Storage Tank Financial Assurance Finance Authority, a special revenue fund, had an unreserved fund deficit of $16 thousand. The deficit was caused by the issuance of short-term notes to provide temporary financing for the activities of the MUSTFA Fund.

The State Casino Gaming Fund, a special revenue fund, had an unreserved fund deficit of $8.9 million. The deficit was caused by the issuance of a short-term advance to provide temporary financing of start-up costs. The advance will be repaid as the temporary casinos become operational.

The State Building Authority Advance Financing Fund, a capital projects fund, accounts for monies expended by the State to begin projects for which bonds have not yet been issued. The fund recorded a year-end deficit of $70.8 million. This deficit is to be financed by future bond sales.

The State Building Authority, a capital projects fund, had an unreserved fund deficit of $198.5 million. The deficit was primarily caused by the issuance of commercial paper.

NOTE 25 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

During the fiscal year, the State operated two enterprise funds. The Liquor Purchase Revolving Fund accounts for the State's activities in the distribution of liquor at the wholesale level. The fund is also used to account for certain liquor taxes that generate revenue for other State activities. Nonoperating activity includes $9.3 million in tax revenues. Public Act 431 of 1984 requires that the net income of the fund be transferred to the General Fund. Appropriation acts have also been passed to authorize transfers from the fund as a funding source for other specified purposes.

The State Lottery Fund accounts for the State lottery games and regulation of bingo and charity games. Profits from the lottery are transferred to the School Aid Fund and profits from regulation of bingo and charity games are transferred to the General Fund.

Segment information for the fiscal year ended September 30 (in millions) is as follows:

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	TOTAL
Operating Revenues	$ 529.9	$ 1,767.9	$ 2,297.7
Operating Expenses (Including Depreciation)	430.1	1,147.1	1,577.2
Depreciation Expense	.1	.6	.7
Operating Income (Loss)	99.8	620.7	720.5
Nonoperating Revenues (Expenses)	13.2	(98.1)	(84.9)
Operating Transfers To Other Funds:			
Statutory Net Income Transfer	(105.3)	(629.5)	(734.8)
Administrative General Fund Costs	(7.6)	-	(7.6)
Total Operating Transfers To Other Funds	(112.9)	(629.5)	(742.4)
Net Income (Loss)	-	(106.8)	(106.8)
Unrealized Gain (Loss) on Investments	-	(106.8)	(106.8)
Net Working Capital	8.2	29.7	37.8
Property, Plant, and Equipment	.7	.8	1.6
Total Assets	62.4	1,331.8	1,394.2
Long-Term Liabilities	2.2	874.3	876.6
Total Equity (Deficit)	6.7	62.9	69.5

NOTE 26 – CONDENSED FINANCIAL STATEMENTS - DISCRETELY PRESENTED COMPONENT UNITS

The following tables present condensed financial statements for the "major" discretely presented component units. Major component units are those which are relatively most significant as compared to the other component units or that have an especially significant relationship to the primary government.

BALANCE SHEETS (in millions)

	Michigan Education Trust	Michigan Higher Education Student Loan Authority	Michigan State Housing Development Authority	Michigan Municipal Bond Authority	Central Michigan University
ASSETS					
Current Assets:					
Amounts due from component units	$ -	$ -	$ -	$ -	$ -
Amounts due from primary government	.8	-	-	.7	14.9
Other current assets	31.6	220.9	543.6	1,249.4	75.5
Noncurrent Assets:					
Advances to primary government/ component units	-	-	-	-	-
Mortgages and loans receivable	-	585.7	1,810.2	-	8.0
Investments	745.1	90.8	441.2	360.0	51.9
Property, plant, and equipment	-	-	-	-	201.6
Other noncurrent assets	-	10.6	5.0	1,618.4	-
Total Assets	$ 777.5	$ 908.1	$ 2,800.0	$ 3,228.4	$ 351.9
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Current Liabilities:					
Amounts due to component units	$ -	$ -	$ -	$ -	$ -
Amounts due to primary government	-	.3	.4	.2	1.1
Other current liabilities	54.4	49.2	116.0	526.4	24.3
Long-Term Liabilities:					
Bonds and notes payable	-	743.1	1,960.7	1,774.7	97.4
Other long-term liabilities	621.8	27.9	368.5	82.9	2.7
`					
Total Liabilities	676.2	820.4	2,445.6	2,384.2	125.5
Fund Equity and Other Credits:					
Investment in general fixed assets	-	-	-	-	117.2
Contributed capital	-	-	-	756.3	-
Retained earnings	101.3	87.7	354.4	87.9	-
Fund balances	-	-	-	-	109.3
Total Fund Equity and Other Credits	101.3	87.7	354.4	844.2	226.4
Total Liabilities, Fund Equity, and Other Credits	$ 777.5	$ 908.1	$ 2,800.0	$ 3,228.4	$ 351.9

Eastern Michigan University	Western Michigan University	Other Proprietary Component Units	Other Universities	Governmental Component Units	Totals
$ -	$ -	$ 79.4	$ .6	$ 2.8	$ 82.8
14.6	20.7	1.3	67.7	70.3	191.0

34.4	72.9	158.7	207.7	80.1	2,674.8
-	-	-	.3	-	.3
8.0	5.9	14.9	45.5	1.1	2,479.2
24.3	9.6	47.2	156.0	40.8	1,967.0
247.7	398.3	8.2	960.9	7.9	1,824.6
-	4.7	-	2.2	3.5	1,644.4
$ 329.0	$ 512.1	$ 309.6	$ 1,440.9	$ 206.6	$ 10,864.1
$ -	$ -	$ 2.8	$ -	$ 79.4	$ 82.2
.5	-	.1	1.4	1.3	5.3
31.8	47.3	25.0	112.5	13.3	1,000.2
83.6	128.4	3.4	283.2	-	5,074.3
7.5	13.7	16.2	29.2	32.5	1,202.8
123.3	189.3	47.5	426.3	126.5	7,364.8
173.7	271.2	-	679.2	7.9	1,249.2
-	-	162.7	-	1.5	920.5
-	-	99.3	-	-	730.6
31.9	51.6	-	335.5	70.6	598.9
205.6	322.8	262.1	1,014.7	80.1	3,499.2
$ 329.0	$ 512.1	$ 309.6	$ 1,440.9	$ 206.6	$ 10,864.1

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY (in millions)

	Michigan Education Trust	Michigan Higher Education Student Loan Authority	Michigan State Housing Development Authority	Michigan Municipal Bond Authority	Other Proprietary Component Units	Governmental Component Units	Total
OPERATING REVENUES							
Operating revenues	$ -	$ -	$ -	$ -	$ 63.9	$ 95.5	$ 159.4
Interest income	48.3	46.1	147.9	128.8	.3	-	371.4
Investment revenue (net)	(45.5)	12.3	30.9	-	7.6	-	5.3
Federal revenues	-	-	6.1	-	4.5	-	10.6
Other miscellaneous	.4	4.4	17.0	4.0	1.7	38.4	65.9
Total Operating Revenues	3.2	62.9	201.9	132.8	78.0	133.8	612.6
OPERATING EXPENSES							
Depreciation and amortization expense	-	-	-	-	.3	-	.3
Other operating expenses	57.7	60.8	160.8	116.6	88.0	113.7	597.6
Total Operating Expenses	57.7	60.8	160.8	116.6	88.4	113.7	597.9
Operating Income (Loss)	(54.5)	2.0	41.1	16.2	(10.4)	20.1	14.5
NONOPERATING REVENUES (EXPENSES)							
Federal grant revenue	-	-	71.7	-	.6	-	72.3
Other	-	-	(79.6)	-	(30.6)	-	(110.2)
Total Nonoperating Revenues (Expenses)	-	-	(7.8)	-	(30.1)	-	(37.9)
OPERATING TRANSFERS							
Operating transfers from component units	-	-	-	-	126.8	-	126.8
Operating transfers from primary government	-	-	-	-	1.8	101.1	102.9
Operating transfers to component units	-	-	-	-	-	(126.8)	(126.8)
Operating transfers to primary government	-	-	-	-	(1.0)	(.3)	(1.3)
Total Operating Transfers in (Out)	-	-	-	-	127.6	(26.0)	101.6
Net Income (Loss)	(54.5)	2.0	33.3	16.2	87.1	(5.9)	78.2
Total Fund Equity – Beginning of fiscal year - restated	155.7	85.6	321.1	705.8	219.7	23.7	1,511.6
Effect of accounting change	-	-	-	-	(171.4)	171.4	-
Current Year Capital Contributions	-	-	-	122.2	162.7	-	284.9
Equity transfers	-	-	-	-	(36.1)	(118.5)	(154.6)
Total Fund Equity – End of fiscal year	$ 101.3	$ 87.7	$ 354.4	$ 844.2	$ 262.1	$ 70.6	$ 1,720.3

STATEMENTS OF CHANGES IN FUND BALANCE (in millions)

	Central Michigan University	Eastern Michigan University	Western Michigan University	Other Universities	Total

Total revenues and other additions	$ 293.6	$ 182.0	$ 324.5	$ 765.5	$ 1,565.6
Total expenditures and other deductions	358.3	258.4	435.5	1,005.9	2,058.1
Operating transfers from primary government	75.8	95.1	118.2	331.6	620.7
Net increase (decrease) for the year	11.1	18.7	7.2	91.2	128.2
Total Fund Equity and Other Credits - Beginning of fiscal year - restated	215.3	186.9	315.6	923.6	1,641.4
Total Fund Equity and Other Credits - End of fiscal year	$ 226.4	$ 205.6	$ 322.8	$ 1,014.7	$ 1,769.5

STATEMENTS OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS
AND CHANGES IN FUND BALANCES (in millions)

	Central Michigan University	Eastern Michigan University	Western Michigan University	Other Universities	Total
Revenues	$ 224.3	$ 135.7	$ 287.8	$ 556.8	$ 1,204.6
Expenditures	275.1	202.9	371.4	780.7	1,630.1
Mandatory Transfers (In) Out	7.2	7.7	9.2	18.7	42.8
Operating transfers from Primary Government	(74.1)	(79.9)	(111.5)	(278.0)	(543.5)
Other Transfers (In) Out	13.2	4.5	13.8	28.6	60.1
Total Expenditures and Transfers	221.4	135.2	282.9	550.0	1,189.5
Revenues over Expenditures and Transfers	2.9	.5	5.0	6.7	15.1
Fund Balances - Beginning of fiscal year - restated	25.9	21.8	53.1	88.0	188.8
Change in restricted revenue held for future expenditures	.1	(.4)	(.7)	11.2	10.2
Fund Balances - End of fiscal year	$ 28.9	$ 21.9	$ 57.4	$ 105.9	$ 214.1

NOTE 27 – RISK MANAGEMENT

A. Primary Government

General

The State has elected not to purchase commercial insurance for many of the risks of losses to which it is exposed. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and employee bonding programs, automobile liability, and workers' compensation and unemployment compensation claims. Areas of risk where some level of insurance coverage is purchased include: aircraft liability, property and loss of rents 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 seven 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 for these types of risks 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, the State recognizes fund liabilities in the fund incurring the loss 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 General Long-Term Obligations Account Group, with expenditures recognized when due and payable.

For unemployment claims, the Unemployment Agency (UA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities for unemployment compensation only to the extent of the amount paid by UA through September 30. During the 1998-99 fiscal year, expenditures for payments to former State employees (not including university employees) totalled $4.5 million. The potential liability for future payments has not been estimated.

The State's two internal service funds, which account for certain areas of risk management, follow accounting standards established by the Governmental Accounting Standards Board. 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, retained earnings balance, or deficit is considered in calculating future charges or benefit levels.

Risk Management Fund

This fund was established during fiscal year 1989-90 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 $6.9 million. This includes a long-term portion, which is recorded at $4.9 million.

Changes in the Risk Management Fund's claims liability for automobile liability for the fiscal years ending September 30, 1999 and 1998 are as follows (in millions):

	1999	1998
Balance - beginning	$ 5.6	$ 4.8
Current year claims and changes in estimates	5.2	2.0
Claim payments	(4.0)	(1.2)
Balance – ending	$ 6.8	$ 5.6

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 $173.7 million. This includes a long-term portion which is recorded at a discounted present value of $84.9 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, 1992. Claims incurred in 1992 were discounted using a rate of 9.0% (first 20 years of disability) and 6.0% thereafter. Claims incurred in 1993 and 1994 were discounted using a rate of 6.0%. Claims incurred in 1995 were discounted using a rate of 6.25%. Claims incurred in 1996 and 1997 were discounted using a rate of 5.75%. Claims incurred in 1998 and 1999 were discounted using a rate of 5.25%.

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 retained earnings 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 $53.8 million at September 30, 1999. Retained earnings totaled $8.6 million at September 30, 1999. Therefore, if excessive claims were realized, the fund would not have sufficient retained earnings to satisfy these losses.
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, 1999 and 1998 are as follows (in millions):

	1999	1998
Balance - beginning	$ 166.4	$ 159.8
Current year claims and changes in estimates	485.6	433.6
Claim payments	(478.3)	(427.0)
Balance - ending	$ 173.7	$ 166.4

B. Discretely Presented Component Units

State Universities

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

The universities made initial capital contributions and make premium payments to cover administrative costs, the cost of obtaining excess insurance coverage, and claims for risk retained by the facility. Premiums to facility participants are adjusted based on the difference between actual claims and the amount of claims originally estimated for a year. Liabilities for estimated losses retained by the universities under MUSIC have been established in the operating funds of the universities.

NOTE 28 – CONTINGENCIES AND COMMITMENTS

A. Primary Government

Litigation

The State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant, probable, and reasonably estimable loss is not settled prior to the preparation of these statements, the obligation is recorded as a general long-term liability or fund liability, depending on the fund type (see Note #14).

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 includes damages in tort cases generally, alleviation of prison overcrowding, improvement of prison medical and mental health care, and refund claims under State taxes. The State is also a party to various legal proceedings which, if resolved in the State's favor, would result in contingency gains to the State's General Fund balance, but without material effect upon fund balance. 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 Department of Management and Budget have a material adverse effect on the State's financial position.

10th Judicial Circuit, et al v State of Michigan, et al: On August 22, 1994, the Ingham Circuit and Probate Courts, together with the 55th District Court, filed suits in the Court of Claims and Ingham County Circuit Court against the State of Michigan and Ingham County entitled, 30th Judicial Circuit, et al v Governor, et al for declaratory and injunctive relief, and for damages, due to the alleged failure of the State Court Administrative Office to properly calculate Ingham County's reimbursement under MCL 600.9947; MSA 27A.9947, the court funding statute. The 30th Judicial Circuit, et al v Governor, et al case has been dismissed by stipulation of the parties because the plaintiffs are raising the same claims as members of a class action captioned as 10th Judicial Circuit, et al v State of Michigan, et al (Saginaw Circuit Court No. 94-2936-AA-1/Court of Claims No. 94-15534-CM). Plaintiffs assert that the amount in controversy exceeds $5 million dollars. The case is currently pending final class certification.

Durant v State of Michigan (Durant II): In a decision rendered October 19, 1999, the Court of Appeals held that the State School Aid Act complied with the State's obligations under Article 9, § 29 of the Michigan Constitution to fund the state-mandated portions of the special education, special education transportation, and school lunch programs at the levels required by the Headlee Amendment.

The Court of Appeals further held that certain sections of the State School Aid Act violated Article 9, § 11 of the Michigan Constitution. Article 9, § 11 of the Michigan Constitution provides, in part, that beginning in the 1995-96 state fiscal year, and each fiscal year thereafter, the State shall guarantee that the total state and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total state and local per pupil revenues for school operating purposes. The Court held that under Article 9, § 11, the Legislature must appropriate the state portion of the per pupil revenue for school operating purposes to local school districts as unrestricted school aid. Thus, the Court held that to the extent the Legislature appropriated restricted funds to pay for special education and special education transportation from funds that were guaranteed to local school districts as unrestricted aid, the amendments to the State School Aid Act violated Article 9, § 11.

The Court of Appeals denied plaintiffs' request for mandamus, injunctive relief, and monetary damages and, as described above, granted declaratory relief only. The Court also held that plaintiffs may petition for costs and reasonable attorney fees as allowed by Article 9, § 32 of the Michigan Constitution. Under the court rules, the parties had until November 9, 1999 to appeal the decision to the Supreme Court or to move for rehearing in the Court of Appeals. Neither party appealed the decision nor moved for rehearing. Plaintiffs' petition for costs and attorney fees was granted by the Court of Appeals on January 14, 2000 in the amount of $.4 million. On February 4, 2000 the State filed an application for leave to appeal and motion for peremptory reversal of the January 14, 2000 Court of Appeals order in the Supreme Court. On February 9, 2000, pursuant to the State's request, the Court of Appeals stayed the effect of the January 14, 2000 order, pending resolution of the appeal to the Supreme Court or further order of the Court of Appeals.

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 either fund liabilities or liabilities of the General Long-Term Obligations Account Group when the loss becomes probable and reasonably estimable. As of September 30, 1999, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

For fiscal year 1998-99, estimated mispayments (both State and federal shares) totalled approximately $28.9 million in the Family Independence program (formerly the Aid to Families with Dependent Children (AFDC) program), $62.8 million in the Food Stamp program, and $45.3 million in the Medicaid program.

Gain Contingencies

Certain contingent receivables related to the Family Independence Agency are not recorded as assets in these statements. Amounts recoverable from Family Independence Agency 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.

Certain mispayments related to Department of Education grant programs are not recorded as assets in these statements. The mispayments generally occur because of the inclusion of ineligible student members in census counts at local school districts and are identified through department audits of membership counts. Receivables resulting from such audits are recognized as the audits are completed.

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. The Master Settlement Agreement includes base payments to states totaling $220.6 billion over the next 25 years, and continues in perpetuity. Michigan's share of the settlement is expected to be $8.5 billion over the next 25 years, and $348.3 million thereafter, adjusted for inflation and other factors. The State also received $2.2 million, representing costs incurred to litigate the case. While Michigan's 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 (volume adjustments, for example).The net effect of these adjustments on future payments is unclear, therefore only receivables and deferred revenues which can be reasonably estimated have been recorded for the future payments.

Construction Projects

As of September 30, 1999, several construction projects were in progress, with several others in the planning stages. A more detailed discussion of construction commitments is included in the construction in progress disclosures (Note #10).

The Department of Transportation has entered into construction contracts for transportation related funds. As of September 30, 1999, the balances remaining in these contracts equaled $544.4 million.

Contingent Liability for Local School District Bonds

Public Act 108 of 1961, as amended, resulted in a contingent liability for the bonds of any school district which are

"qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of December 31, 1999, the principal amount of qualified bonds outstanding was $8.2 billion. Total debt service requirements on these bonds including interest will approximate $765.2 million in 2000. 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, 1999, is $284.3 million. Interest due on these loans as of September 30, 1999, is $42.6 million.

Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) Projects

The MUSTFA Fund, a special revenue fund, receives revenues dedicated to reimbursing owners/operators of underground storage tanks (UST) for costs incurred related to conducting corrective actions at sites where a release has occurred from an UST. The MUSTFA reimbursement fund was declared insolvent and received no additional claims after June 29, 1995. The revenue is still collected to pay off two main obligations of the MUSTFA Fund: the long-term liability for incurred claims recorded in the General Long-Term Obligations Account Group, which is discussed in Note 14, and the debt and debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators.

B. Discretely Presented Component Units

Student Loan Guarantees

The Michigan Higher Education Assistance Authority (MHEAA) is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State of Michigan, 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, 1999. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 1999, 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, the MHEAA could be liable for up to 22% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. 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, the MHEAA's expected maximum contingent liability is less than 22% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 1999, is $559.4 million.

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the MHEAA will maintain cash and marketable securities. The MHEAA was in compliance with this requirement as of September 30, 1999, at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended.

NOTE 29 – SUBSEQUENT EVENTS

A. Long-Term Borrowing

In October 1999, the State issued Clean Michigan Initiative bonds totaling $96.9 million. The funds will be used primarily for Brownfield redevelopment, environmental cleanup, and water enhancement and protection.