

State of Michigan

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Prepared by
**Department of
Management & Budget**

Fiscal Year Ended
September 30, 1998

John Engler, Governor



STATE OF MICHIGAN
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
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Statements and schedules are rounded to thousands of dollars. Because of this, they may not add to the totals.

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT & BUDGET

P.O. BOX 30026, LANSING, MICHIGAN 48909
MARY A. LANNOYE, State Budget Director

February 27, 1999

The Honorable John Engler, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* for the fiscal year ended September 30, 1998.

INTRODUCTION TO THE REPORT

Responsibility: The Department of Management and Budget, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner which fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, the financial statements contained in the SOMCAFR have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Method of Presentation: The term "Comprehensive Annual Financial Report" (CAFR) collectively refers to all of the financial information and data presented in this report. The SOMCAFR is divided into three major sections: introductory, financial, and statistical. The introductory section includes this letter, the State's organization chart, and the list of principal officials. The financial section includes: the "General Purpose Financial Statements," which present combined financial information in eight principal financial statements for the State primary government and its blended and discretely presented component units, together with footnotes to the General Purpose Financial Statements; the independent auditor's report on the General Purpose Financial Statements; and the supplemental financial data section, which includes the combining financial statements and schedules. The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

Reporting Entity: The State of Michigan reporting entity reflected in the SOMCAFR, which is described more fully in Note 1 to the financial statements, conforms with the requirements of GASB Statement No. 14, The Financial Reporting Entity. The accounting and reporting principles contained in Statement No. 14 are based primarily on the fundamental concept that publicly elected officials are accountable to their constituents. Further, Statement No. 14 provides that the financial statements should emphasize the *primary government* and permit financial statement users to distinguish between the primary government and its *component units*.

The SOMCAFR includes all the funds and account groups of the State primary government, which includes the Executive Branch departments and agencies, the Legislature, and the State portion of the court system. Also included are "blended" component units, which are, in substance, part of the primary government; the State primary government includes two such blended component units, the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority. The SOMCAFR also includes financial information for certain legally separate governmental organizations for which the State is *financially accountable*. Financial accountability may exist if the primary government has the legal authority to appoint a voting majority of the separate organization's governing board. These types of component units are presented "discretely"



(i.e., separate and distinct from the primary government) in the SOMCAFR and include: the Mackinac Bridge Authority, Michigan Higher Education Facilities Authority, Michigan State Hospital Finance Authority, Michigan Education Trust, Michigan Higher Education Student Loan Authority, Michigan Higher Education Assistance Authority, Mackinac Island State Park Commission, Michigan Strategic Fund, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, and the State Bar of Michigan. This group of discretely presented component units is further subdivided between *governmental* and *proprietary* types, depending on the primary characteristics of their operations. In addition, pursuant to GASB Statement No. 14, the SOMCAFR includes financial statements for the State's ten public universities, which have governing boards that are appointed by the Governor. They include: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University.

Organizations which receive substantial financing from the State, but which do not meet the GAAP criteria for inclusion in the State's reporting entity, include: public universities which have governing boards that are elected at statewide public elections (Michigan State University, the University of Michigan, and Wayne State University); community colleges, which in Michigan are considered to be a part of general or special purpose local units of government; and the portions of the court system which are considered to be local units of government.

ECONOMIC CONDITION AND OUTLOOK

As 1999 begins, the U.S. economy and consumer confidence remain strong. The Administration forecasts that the national economy will continue to grow but at a slower rate from its 1998 pace. The gross domestic product is expected to increase at the rate of 2.0% in 1999 and 1.9% in 2000. Car and light truck sales are expected to remain steady at 15.0 million units sold in 1999 and 14.9 million units sold in 2000. The U.S. unemployment rate is expected to be 4.8% in 1999 before rising to 5.1% in 2000.

Michigan's December 1998 unemployment rate was 3.8% and the average unemployment rate in 1998, 4.5%, was below 5% for the third time since 1969. This was the fifth year in a row that the average Michigan unemployment rate has been below the national average. The latest unemployment rate (3.8%) was the lowest since 1970 and the seventh consecutive year that the Michigan unemployment rate has declined. The Michigan economy will continue to benefit from anticipated moderate growth in employment of 72,000 jobs (1.6%) in 1999 and 53,000 jobs (1.1%) in 2000. In addition, the year 2000 is expected to be the seventh straight year in which Michigan's unemployment rate will be below the national average. The inflation rate, as measured by the Detroit Consumer Price Index, is projected to be 1.7% in calendar year 1999 and 2.1% in calendar year 2000.

As a result of continued growth in the State's economy, the Administration projects that Michigan personal income will grow 3.8% in 1999 and 3.6% in 2000. Adjusting for anticipated inflation in Michigan, respective increases in purchasing power of 2.1% and 1.4% are expected for 1999 and 2000.

MAJOR INITIATIVES AND FUTURE PROJECTS

Education Remains a Top Priority: The Administration continues its strong support for financing K-12 education and reducing the equity gap in per pupil funding. In fiscal year 2000, for the third consecutive year, the state will spend more on K-12 education than is spent for all other expenditures financed from the General Fund general purpose revenues. Total state, local, and federal funding for schools is projected to exceed \$13 billion by fiscal year 2000.

One of the most important features of the school finance reform passed by the voters in March 1994 was the commitment to reduce inequities in per pupil spending. Prior to passage of this referendum, per pupil spending in K-12 districts ranged from \$3,400 in the lowest spending district to \$10,300 in the highest spending district. By fiscal year 2000, no district will receive foundation allowances of less than \$5,550 in per pupil funding. For the lowest spending school districts, that represents a 63 percent increase since 1994, when Proposal A was enacted. These foundation allowances continue the school finance reform efforts of 1994, by reducing the funding disparity among school districts.

Transportation Infrastructure Investments: Michigan will begin the 21st century with its most aggressive program for strengthening the State's transportation infrastructure. For the first time, the Michigan Department of Transportation has a five-year plan for rebuilding and repairing roads and bridges. MDOT is planning to rebuild or repair 1,400 miles of road and 280 bridges each year for the next five years, with the goal of having more than 90 percent of the state-owned facilities in good shape by 2007. The plan calls for spending an average of \$1.3 billion in state and federal funds each year for 1999-2003, most of that on repair and maintenance.

Welfare Reform: Michigan continues its aggressive actions to reform welfare and make families independent from public assistance. From September 1992 to October 1998, the Family Independence Program (FIP, formerly AFDC) caseload has declined by 53%, compared to a national average decrease of nearly 40%. In December 1998, Michigan's FIP caseload went below 100,000 cases for the first time since January 1971.

One of Michigan's welfare reform initiatives, Project Zero, is aimed at encouraging and supporting employment. The goal is to reduce to zero the number of FIP families without earned income. In 1998, record numbers of FIP cases earned income (53% of those who are expected to work). To support low-income working families while they are on FIP and after leaving assistance, Michigan will increase child care funding from \$33 million in fiscal year 1992 to \$420 million in fiscal year 1999.

Economic Development: Beginning in early 1999, the Administration will transfer economic development functions of the Michigan Jobs Commission to the Michigan Strategic Fund (MSF) as an autonomous entity within the Department of Management and Budget. In partnership with local governments, the MSF will create a new corporation, the Michigan Economic Development Corporation (MEDC), to consolidate economic development in Michigan and to allow greater flexibility in forming innovative partnerships with the private sector and universities to address emerging economic challenges. The MEDC formalizes the state-local partnership that is essential to ensuring long-term continuity of economic development efforts. The corporation will work to attract more "Gold Collar" jobs, those jobs that are high-skill, high-wage, and high demand.

In addition, the Department of Career Development was created to replace the Michigan Jobs Commission. This cabinet level department will focus on maximizing the career opportunities for every Michigan resident by elevating the importance of workforce development and worker education and training.

Financial Management System Improvements: As 1999 begins, the Department of Management and Budget (DMB) is continuing its joint efforts with all state departments to upgrade and improve its financial management systems.

The Department of Civil Service, the Department of Management and Budget, and the Office of the State Employer are leading an effort, involving all State agencies, to replace the State's multiple, existing human resources systems with a single, fully integrated system for all three branches of government. The mission of the Human Resources Management Network (HRMN) Project is to implement a comprehensive, state-of-the-art human resources system that meets evolving user needs in an efficient, timely, and cost effective manner.

The State has also initiated a major systems project to ensure that all its computer systems throughout state government, including its financial management systems, are year 2000 compliant. The Year 2000 Project Office has guided, coordinated, and overseen all Year 2000 (Y2K) activities for executive branch agencies. For the significant pro-active steps taken to assure that the State's executive branch agencies will be year 2000 operable, the State has been awarded the "Best Practice Award," which was co-sponsored by PC Week and Technology Managers Forum International, for its efforts in year 2000 remediation. As of December 31, 1998, agencies completed 90% of all critical applications. In addition, the Year 2000 Project Office has taken steps to heighten the awareness of the year 2000 problem with the business community, local governments, and other trading partners. For example, it has partnered with the Michigan State Police, Emergency Management Division, to assess the year 2000 readiness of key sectors of the State's economy and to help agencies and local governments refine their emergency management plans.

The Michigan Information Center has initiated a project, the Statewide Land Database (SWLDB) Executive Information System, to provide a single resource for the state's property holdings. The system will inventory a set of core attributes for buildings, parcels, institutions, and roads. Users will utilize the world-wide-web to obtain the property holdings data. The target implementation date for the first phase is September 1999.

DMB also continues to lead a statewide effort to reduce the time and cost of the annual bookclosing process. Enhancements to the Michigan Administrative Information Network (MAIN) and other changes in the bookclosing process allowed the State to close its books and issue this report with the earliest opinion date that the SOMCAFR has received since the fiscal year 1977-78 report.

FINANCIAL INFORMATION

Internal Control Structure: The Department of Management and Budget is responsible for the overall operation of the State's central accounting system, and for establishing and maintaining the State's internal control structure. All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Fund, the State Employees' Deferred Compensation Fund I and II, and the State Employees' Defined Contribution Retirement Fund. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Department of Management and Budget relies upon the controls in place at the various State departments and agencies.

Public Act 431 of 1984, as amended, requires each principal department to appoint an internal auditor and maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before March 1 of each odd numbered year, effective as of the preceding October 1.

The "discretely" presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue funds), Public Act 431 of 1984, as amended, requires the State to adhere to GAAP in budgeting projected revenues and expenditures and calculating fund balance for budgetary purposes. The Act also prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

The budgetary "basis of accounting" used by the State primary government departs from GAAP only in ways that do not affect unreserved fund balance, and that do not impact most revenue and expenditure line items. Appropriations for nearly all line items,

therefore, are made on a basis consistent with GAAP, which makes it possible for the State to use the central accounting system for both budgetary control and financial reporting purposes. The two variances between GAAP and the budgetary basis of accounting are: (1) the use of encumbrances for budgetary control purposes (which GAAP does not require), and (2) the timing of recording expenditures and liabilities for capital lease commitments on a "pay as you go" basis for budgetary purposes, rather than at lease inception as required by GAAP. Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget to actual comparative statements, notes, and related supplementary schedules in the SOMCAFR.

Revenue and Spending Limitation Requirements: Under the State Constitution, total State revenues are limited to a percentage of total Michigan personal income. The calculations necessary to determine the State's compliance with this requirement for fiscal year 1997-98 are not yet final; however, based on preliminary calculations, total State revenues for fiscal year 1997-98 were considerably below the limit.

The State Constitution also requires that spending to local units of government be maintained at not less than a specified level of total State spending, originally determined to be 41.61% for the base fiscal year 1978-79. The originally determined percentage was recalculated effective with fiscal year 1992-93 reflecting the terms of a legal settlement agreement. The recalculated base year percentage is 48.97%. The calculations necessary to determine the State's compliance with this requirement for fiscal year 1997-98 are not yet final; however, based upon preliminary calculations the State has substantially exceeded the minimum required spending to local units of government for fiscal year 1997-98.

The State's compliance with both of these Constitutional provisions is discussed more fully in Note 3 to the financial statements.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

General Governmental Functions: For the purposes of the following two tables and related discussions in this letter, the "General Governmental Functions" are considered to be the activities of the General Fund and the special revenue funds of the State primary government. These are the State funds that are used to account for the activities most traditionally thought of as being a normal part of State government operations.

The two tables report only direct revenues and expenditures and, therefore, do not include "other financing sources and uses."

Revenues (in millions):

Revenue Source	1997-98 Amount	Percent of Total	Change From 1996-97	Percentage Change
Personal Income Tax	\$ 6,793.1	22.5%	\$ 392.7	6.1%
Sales Tax	5,617.3	18.6	227.5	4.2
Single Business Tax	2,349.1	7.8	124.8	5.6
State Education (Property) Tax	1,256.9	4.2	(91.9)	(6.8)
Other Taxes	4,609.5	15.2	532.5	13.1
Federal Revenues	7,679.5	25.4	26.0	.3
Special Medicaid Reimbursements	585.2	1.9	(8.2)	(1.4)
Other Revenues	1,350.5	4.5	58.4	4.5
Total	\$ 30,241.1	100.0%	\$ 1,261.8	4.4%

The table above does not include other financing sources, the most significant of which are: State Lottery Fund profits of \$616.1 million and Budget Stabilization Fund appropriations of \$212 million transferred to the School Aid Fund; and Liquor Purchase Revolving Fund profits of \$96.7 million transferred to the General Fund.

There were no significant structural changes in the State's personal income, sales, and single business taxes during fiscal year 1997-98. The increases in these revenues over the prior year primarily reflect growth in the underlying activity from the State's continuing strong economy. The decrease in the State education (property) tax is attributed to a \$71 million increase in the State education (property) tax revenue and a \$227 million reclassification of real estate transfer taxes to other taxes. Other taxes also increased because of changes in the laws pertaining to gasoline and diesel fuel taxes collections.

Federal revenues include financial assistance received from the U.S. Department of Health and Human Services, which provides a significant portion of the financing for health and welfare programs; such financial assistance amounted to approximately \$4.9 billion and approximately 64% of total federal revenues for fiscal year 1997-98.

Revenue from special Medicaid reimbursements represents funding received by the State from other units of government and other public entities to help finance the Medicaid program.

Other revenues include local, \$165.4 million; services, \$107.6 million; licenses and permits, \$376.9 million; investment income, \$144.9 million; child support recoveries, \$62.3 million; and other miscellaneous sources, \$493.3 million. The increase in other revenues resulted from increases to license and permit revenues and court fines and fee revenue.

Expenditures (in millions):

Current, Capital Outlay, and Intergovernmental Expenditures by Function	1997-98 Amount	Percent of Total	Change From 1996-97	Percentage Change
Current:				
General government	\$ 1,003.1	3.4%	\$ (57.5)	(5.4)%
Education	11,462.1	38.4	893.3	8.5
Family independence services	3,262.6	10.9	(233.9)	(6.7)
Public safety & corrections	1,720.1	5.8	(18.6)	(1.1)
Conservation, recreation, & agriculture	446.4	1.5	5.7	1.3
Labor, commerce & regulatory	763.5	2.6	6.7	.9
Health services	6,781.6	22.7	217.9	3.3
Transportation	1,556.1	5.2	96.4	6.6
Tax expenditures	477.0	1.6	7.0	1.5
Capital outlay (including highways)	898.5	3.0	181.7	25.3
Intergovernmental – revenue sharing	1,381.0	4.6	79.8	6.1
Debt service - capital lease payments	58.9	.2	1.3	2.3
Total Current, Capital Outlay, and Intergovernmental Expenditures	<u>\$ 29,810.9</u>	<u>100.0%</u>	<u>\$ 1,179.8</u>	4.1%

Under Executive Order No. 1997-5, effective May 20, 1997, the Office of Services to the Aging was transferred from the Department of Management and Budget to the Department of Community Health. Expenditures previously reported under general government, amounting to approximately \$119.4 million, are now reported as health service expenditures.

Under Executive Order No. 1997-13, effective October 1, 1997, all statutory authority, powers, duties, functions, and responsibilities of the State Exposition and Fairgrounds Office were transferred from the Department of Consumer and Industry Services to the Department of Agriculture. Expenditures previously reported in the General Fund under labor, commerce, and regulatory, were reported in fiscal year 1997-98 under conservation, environment, recreation, and agriculture. Expenditures for the Michigan State Fair totaled \$6.7 million during fiscal year 1997-98.

Under Executive Order No. 1999-1, effective April 5, 1999, a principal department, Michigan Jobs Commission, will be abolished. The authority, duties, and responsibilities of the Michigan Jobs Commission will be split between a newly created principal department, Career Development, and the Michigan Strategic Fund, an autonomous type I agency within the Department of Management and Budget.

The table above does not include \$550.0 million in distributions to the ten State universities, which are considered discretely presented component units of the State. These transactions are reported as operating transfers in the SOMCAFR.

General government expenditures include operations of the Legislature, the Judiciary, and Executive Branch functions within the Departments of Management and Budget, Attorney General, Civil Rights, Civil Service, State, and Treasury. This category also includes expenditures for interfund borrowing costs of \$22.9 million, down considerably from \$79.8 million reported in fiscal year 1996-97.

Education expenditures increased because of continued support for public education. Total funding provided for public school support increased \$541 million (6.3%) from the prior year, including an increase of approximately \$461 million for the foundation allowance. The Durant settlement payment of \$212 million also contributed to the increase in education expenditures.

Family independence service expenditures, and associated federal revenues, decreased primarily from a reduction in the food stamp caseload.

The State prison inmate population continues to increase, but at a much lower rate than in the 1980s, resulting in increased incarceration costs. In fiscal year 1997-98, early retirement programs and rate reductions for retirement contributions significantly offset the increased incarceration costs. The Department of Corrections is committed to making its operations more efficient and has instituted other cost saving measures in the areas of staffing, double bunking where appropriate, and expansion of alternatives to incarceration.

The increase in health service expenditures primarily reflects the transfer of programs, such as Adult Home Help Care and the Office of Services to the Aging, under departmental reorganizations that were previously reflected as expenditures of other General Fund functions.

Tax expenditures represent refundable income tax credit programs including the homestead property tax credit and the senior citizen property tax credit, which accounted for \$430.5 million of the total tax expenditures of \$477.0 million.

The largest component of capital outlay expenditures is related to State Trunkline highway expenditures, which amounted to \$818.9 million, an increase of approximately \$152.4 million compared to the prior year. This increase resulted from a significant program to improve Michigan's roads and bridges.

General Fund Highlights: A major objective of the Administration has been to improve financial management by eliminating the chronic overspending and overestimation of revenues that had occurred in the 1980s. This year's results reflect the success of this approach; no department had net budgetary overexpenditures for fiscal year 1997-98.

General Fund revenues and other financing sources (including restricted sources, operating transfers in, and capital lease acquisitions) totaled approximately \$19.3 billion for the fiscal year. Expenditures and other financing uses totaled approximately \$18.8 billion. Fund balance reserves for budgetary carry-forwards, noncurrent assets and revolving loans (discussed more fully in Note 24) increased approximately \$216.3 million from \$993.9 million to \$1.2 billion. The unreserved fund balance of the General Fund was \$55.2 million at fiscal year-end.

During fiscal year 1997-98, an error was identified pertaining to the Medicaid program administered by the Department of Community Health (DCH). Over a ten-year period, DCH did not properly record all Medicaid expenditures and revenues on a modified accrual basis as required by GAAP. For the fiscal year ended September 30, 1997, the General Fund did not reflect Medicaid expenditures of \$178.7 million, and federal revenue of \$24.6 million. As a result, the fiscal year 1997-98 beginning fund balances were reduced by \$154.1 million, to \$893.1 million, to account for the correction of the prior period error.

Proprietary Fund Operations: The State accounts for the wholesale distribution of alcoholic beverages through the Liquor Purchase Revolving Fund. Statutory net income, \$96.7 million, and funding for administrative costs, \$7.5 million, were transferred to the General Fund during fiscal year 1997-98.

State Lottery Fund operating revenues increased \$66.5 million to \$1.7 billion. Net income from lottery operations (after prizes and other costs) transferred to the School Aid Fund increased \$28.4 million to \$616.1 million.

The State Sponsored Group Insurance Fund accounts for the State's risk retention for employee benefit programs. The fund had net loss of \$80.5 million during the year and ended the year with total assets of \$218.1 million, liabilities of \$176.5 million, and retained earnings of \$41.6 million. The State, under a management plan to reduce the retained earnings of this fund, anticipates losses in the fund for the next few years.

Pension Plans: The State Constitution requires the State to provide current funding of plan benefits for the State's defined benefit pension plans. Statutes provide for the amortization of unfunded prior service costs. In two of the four plans for which the State is responsible for providing funding, the enabling statutes for the plans contain provisions under which a shortfall in the legally required contributions will be corrected in succeeding fiscal years.

The State Employees' Retirement System (SERS) is the largest of the defined benefit plans for which the State is responsible for providing funding. Total assets of SERS at September 30, 1998 were \$9.6 billion, with net assets held in trust for pension and postemployment health-care benefits totaling \$9.2 billion.

Debt Management: New general obligation issues totaled \$250 million, consisting of \$160 million of School Loan Bonds issued for the purpose of providing loans to school districts and \$90 million of Environmental Protection Bonds issued as part of an \$800 million general obligation bond package authorized by the voters in 1986.

In 1998, the State received credit rating upgrades from all three major credit agencies, its highest rating in 20 years. The State's general obligations are rated Aa1 by Moody's, and AA+ by both Fitch and Standard & Poors.

Revenue dedicated bonded debt, including that of the State Building Authority, increased by \$350 million to \$3.1 billion during 1997-98.

Additional disclosures about the State's general long-term obligations are provided in Note 14 to the financial statements.

Cash Management: As discussed more fully in Note 5 to the financial statements, the State Treasurer maintains the State's common cash pool, which is used by most State funds for short-term investment and to provide centralized control over disbursements. The total amount of pooled cash, which is primarily invested in prime commercial paper, amounted to \$3.2 billion at September 30, 1998, an increase of approximately \$722 million from \$2.5 billion at September 30, 1997.

In November 1997, the State issued \$900 million in short-term general obligation notes to assist in managing cash flows. Such borrowings are limited by the State Constitution to 15% of undedicated State revenue, or approximately \$1.3 billion. The Constitution also requires that such borrowings be repaid before year-end. The notes were repaid in full on September 30, 1998, plus interest costs amounting to \$30.1 million.

HIGHLIGHTS - COMPONENT UNIT OPERATIONS

Except for the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority, which are "blended" directly with the fund types of the State primary government (refer also to the section describing the State reporting entity), all of the component units are presented discretely in the SOMCAFR. Condensed financial statements for all of the discretely presented component units, with total assets amounting to \$9.9 billion, are presented in Note 26.

Selected highlights for certain State proprietary type component units follow:

The largest such component unit is the Michigan State Housing Development Authority, which provides financing for various types of housing programs. The authority had total assets of \$2.8 billion and bonds payable of \$2.0 billion outstanding as of June 30, 1998.

The Michigan Education Trust (MET) was established to provide a means for parents and other individuals to finance future tuition costs at State public colleges and universities. As of September 30, 1998, MET had total assets, valued at market, of \$805.2 million. Additional information about MET's financial operations, including the actuarial assumptions used in valuing the obligation for future tuition costs, is included in Note 18.

The Michigan Municipal Bond Authority (MMBA) was created to permit local units of government the opportunity to pool their bond sales used to finance local projects. In addition, MMBA operates the State Water Pollution Control Fund which is used to account for a program created to provide local governments financing for local water pollution control projects. MMBA had total assets of \$2.5 billion and bonds and notes payable of \$1.2 billion outstanding as of September 30, 1998.

OTHER INFORMATION

Risk Management: Risk management was established within the Department of Management and Budget in 1987 to improve the State's risk control policies and procedures. The unit's activities include analysis of and control over insurance coverage and risk exposure, and planning and implementing a statewide safety and health policy and program. The State is self-insured for many types of general liability and property losses. Additional disclosures on the State's risk management activities are provided in Note 27.

Audits: The principal auditor of the State's reporting entity is the legislative Office of the Auditor General (OAG). The OAG's audit of the SOMCAFR was conducted in accordance with generally accepted auditing standards (GAAS), and their independent auditor's report precedes the General Purpose Financial Statements. In addition to the annual audit of the State's SOMCAFR, the Office of the Auditor General also performs periodic financial and performance audits of the various State departments, agencies, and institutions of higher education. The OAG engages outside public accounting firms periodically, particularly for the audits of separately issued component unit financial statements (such as the Michigan State Housing Development Authority), the larger pension funds, and the Michigan Unemployment Compensation Fund. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act of 1984. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies, and component unit authorities, and result in separately issued audit reports.

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

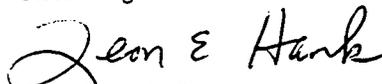
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for the last eleven consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA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

Acknowledgments: In any year, the preparation of this report requires the collective efforts of literally hundreds of finance personnel throughout the State, both individually and in teams from virtually all State agencies. We sincerely appreciate the dedicated efforts of all of these individuals. This year, we are especially proud that we received the audit opinion by the earliest date in almost two decades. Recognizing the significance of this accomplishment, we give special thanks to the management and staff of the Financial Control Division, Office of Financial Management, who led the State through this complex process and made extraordinary investments of time and energy to achieve this successful outcome.

Sincerely,



Mary A. Lannoye
State Budget Director



Leon E. Hank, CPA
Director, Office of Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 1997

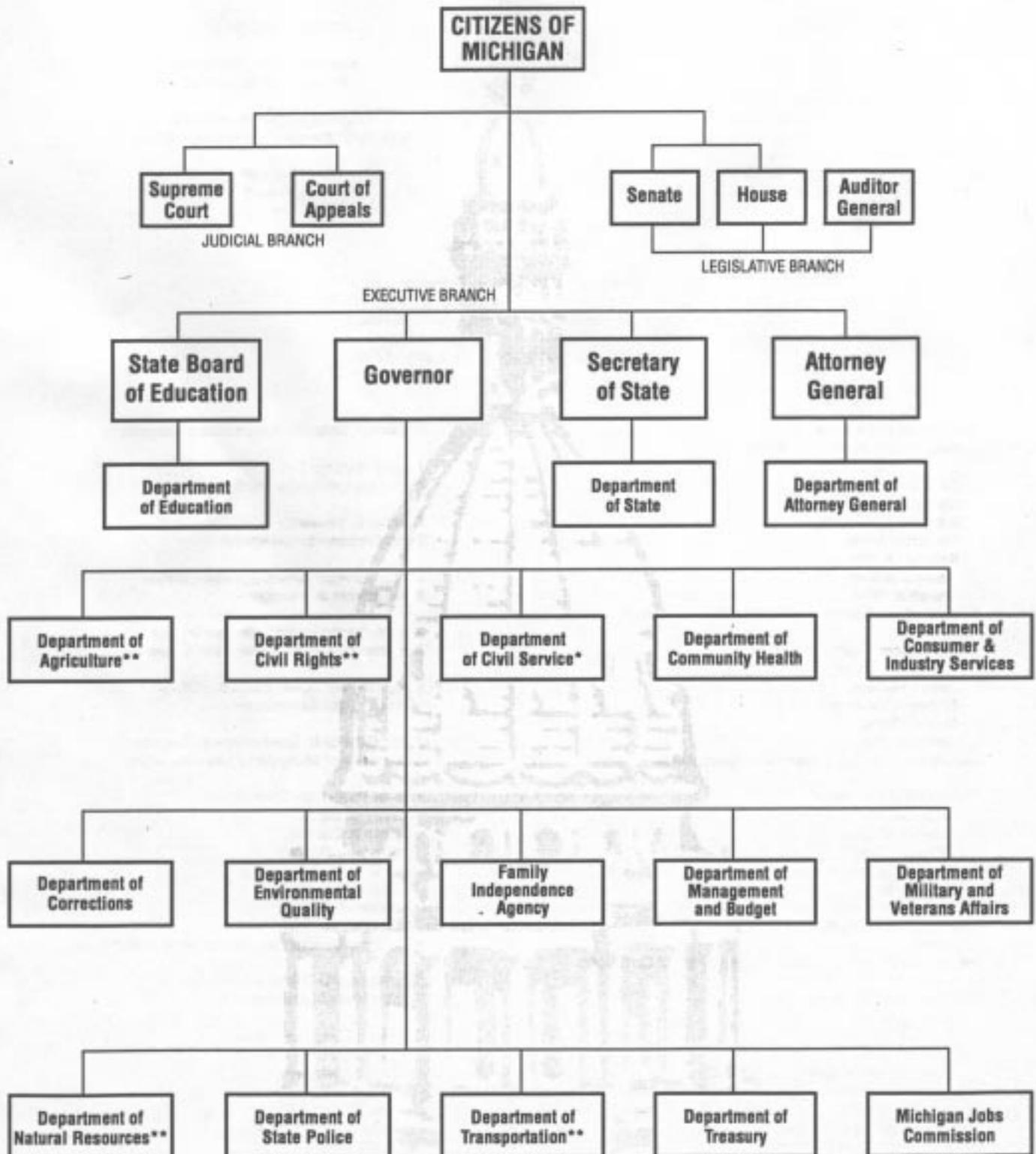
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Douglas R. Ellsworth
President

Jeffrey L. Essler
Executive Director

**STATE OF MICHIGAN
ORGANIZATIONAL STRUCTURE
SEPTEMBER 30, 1998**



* Has Commission appointed by Governor
 ** Has Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

Supreme Court Justices
Honorable Elizabeth A. Weaver, Chief Justice
Honorable James H. Brickley, Justice
Honorable Michael F. Cavanagh, Justice
Honorable Maura D. Corrigan, Justice
Honorable Marilyn Kelly, Justice
Honorable Clifford W. Taylor, Justice
Honorable Robert P. Young, Jr., Justice

LEGISLATIVE BRANCH

Honorable Dick Posthumus
President of the Senate

Honorable Charles Perricone
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable John Engler, Governor

Honorable Jennifer Granholm, Attorney General

Honorable Candice S. Miller, Secretary of State

State Board of Education
Honorable John Engler (Ex Officio)
Dorothy Beardmore
Clark Durant
Sharon L. Gire
Marianne Y. McGuire
Herbert S. Moyer
Kathleen N. Straus
Eileen L. Weiser
Sharon A. Wise
Arthur E. Ellis, Superintendent of Public Instruction

Michigan Commission of Agriculture
Douglas E. Darling
James Maitland
Shirley A. Skogman
Deanna Stamp
Jordan B. Tatter
Dan Wyant, Director, Department of Agriculture

Civil Rights Commission
Albert Calille
Evelyn L. Crane
Richard J. Garcia
Valerie P. Simmons
Gary Torgow
Rev. Edgar L. Vann, Jr.
Francisco J. Villarruel
Vacant
Nanette Lee Reynolds, Director, Department of Civil Rights

Civil Service Commission
David Adamany
Rae Lee Chabot
Robert P. Hunter
Susan Grimes Munsell
John F. Lopez, Director, Department of Civil Service

James K. Haveman, Jr., Director
Department of Community Health

Kathleen M. Wilbur, Director,
Department of Consumer and Industry Services

Bill Martin, Director, Department of Corrections

Russell Harding, Director
Department of Environmental Quality

Douglas E. Howard, Director
Family Independence Agency

Janet E. Phipps, Director, Department of
Management and Budget

Mary A. Lannoye, State Budget Director
Department of Management and Budget

Doug Rothwell, Chief Executive Officer
Michigan Jobs Commission

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs

Natural Resources Commission
Jerry C. Barnik
Keith J. Charters
Nancy A. Douglas
L. Thornton Edwards, Jr.
Paul J. Eisele
William U. Parfet
Lloyd F. Weeks
K. L. Cool, Director, Department of Natural Resources

Col. Michael D. Robinson, Director
Department of State Police

Transportation Commission
Betty Jean Awrey
Jack L. Gingrass
Lowell B. Jackson
John C. Kennedy
Barton W. LaBelle
Ted B. Wahby
James R. DeSana, Director, Department of Transportation

Mark A. Murray, State Treasurer



One of the Department of Consumer & Industry Services (CIS) responsibilities is to regulate day care facilities. CIS Director, Kathleen Wilbur, is shown here visiting a day care center, recipient of a Governor's Quality Care Award for 1998.



This single grandmother was able to have much needed repairs and improvements made to her South Haven home through a Community Development Authority (CDBG) administered by the Michigan State Housing Development Authority (MSHDA). Since 1982, MSHDA has awarded nearly \$200 million in CDBG funds to more than 200 localities, improving more than 12,300 housing units.



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report

The Honorable John M. Engler, Governor
Members of the Legislature

February 27, 1999

We have audited the accompanying general purpose financial statements of the State of Michigan, principally as of September 30, 1998 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Michigan Employment Security Act - Administration Fund, Michigan Unemployment Compensation Fund, Michigan Employment Security Act Contingent Fund, State Lottery Fund, State Police Retirement Fund, State Employees' Retirement Fund, Public School Employees' Retirement Fund, Judges' Retirement Fund, Mackinac Bridge Authority, Michigan Education Trust, Michigan Higher Education Student Loan Authority, Michigan Higher Education Assistance Authority, Mackinac Island State Park Commission, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Michigan State Hospital Finance Authority, Michigan Higher Education Facilities Authority, State Bar of Michigan, State Building Authority, State Employees' Deferred Compensation Fund I (457), State Employees' Deferred Compensation Fund II (401k), State Employees' Defined Contribution Retirement Fund, State Sponsored Group Insurance Fund, and the discretely presented State universities (Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University). Those financial statements reflect total assets and revenues constituting 0.4% and 1.2% of the assets and revenues, respectively, of the special revenue funds; 86.1% and 91.2% of the assets and operating revenues, respectively, of the debt service funds; 66.7% and 96.3% of the assets and operating revenues, respectively, of the capital projects funds; 96.8% and 77.2% of the assets and operating revenues, respectively, of the enterprise funds; 95.0% and 82.7% of the assets and revenues, respectively, of the expendable trust funds; 99.7% and 99.7% of the assets and total additions to plan net assets, respectively, of the pension trust funds; 58.5% and 69.3% of the assets and revenues, respectively, of the internal service funds; 77.2% of the assets of the agency funds; 100.0% of the discretely presented governmental component units; 97.5% and 98.4% of the assets and operating revenues, respectively, of the discretely presented proprietary component units; 100% of the discretely presented State universities (as previously identified); 1.6% of the general fixed assets account group; and 35.4% of the general long-term obligations account group. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units and funds, is based solely upon the reports of the other auditors.

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

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL



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

The Honorable John M. Engler, Governor
Members of the Legislature
Page 2

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Michigan, principally as of September 30, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the general purpose financial statements, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the State's management, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Michigan. This information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

The year 2000 supplementary information on page 66 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

The introductory and statistical sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish". The signature is written in a cursive style with a large, looping flourish at the end.

Thomas H. McTavish, C.P.A.
Auditor General

STATE OF MICHIGAN
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 1998
 (In Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
ASSETS						
Current Assets:						
Cash	\$ 6,820	\$ 115	\$ -	\$ -	\$ 1,638	\$ 15
Equity in Common Cash (Note 5)	300,709	2,399,690	4,995	5,321	76,111	100,899
Taxes, interest, and penalties receivable (Note 6)	1,264,301	816,632	-	-	-	-
Amounts due from other funds (Note 20)	399,782	100,108	-	69,388	-	28,956
Amounts due from component units	1,577	622	-	1,524	-	-
Amounts due from primary government	-	-	-	-	-	-
Amounts due from federal agencies	1,090,814	219,233	-	28	-	-
Amounts due from local units	230,137	39,601	-	1,849	-	-
Inventories	21,948	9,882	-	-	7,406	15,069
Investments (Note 8)	-	100	248,850	136,558	129,647	-
Securities lending collateral (Note 8)	-	-	-	-	580,741	-
Other current assets	379,778	29,095	1,155	1,138	47,355	19,206
Total Current Assets	<u>3,695,865</u>	<u>3,615,079</u>	<u>255,000</u>	<u>215,806</u>	<u>842,899</u>	<u>164,145</u>
Taxes, interest, and penalties receivable (Note 6)	75,582	11,473	-	-	-	-
Advances to other funds (Note 20)	22,303	35,142	-	-	-	22,119
Advances to component units	-	-	-	-	-	-
Amounts due from federal agencies	5,484	107	-	-	-	-
Amounts due from local units	247,678	30,110	-	-	-	-
Mortgages and loans receivable (Note 9)	-	-	-	-	-	-
Investments (Note 8)	-	145,688	30,226	-	1,069,287	-
Property, plant and equipment (Note 10)	-	-	-	-	1,988	111,290
Other noncurrent assets	7,681	7,014	-	-	-	75,379
Amount available for retirement of bonds	-	-	-	-	-	-
Amount to be provided for bond retirement	-	-	-	-	-	-
Amounts to be provided for other long-term obligations	-	-	-	-	-	-
Total Assets	<u>\$ 4,054,592</u>	<u>\$ 3,844,613</u>	<u>\$ 285,226</u>	<u>\$ 215,806</u>	<u>\$ 1,914,173</u>	<u>\$ 372,934</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS						
Current Liabilities:						
Warrants outstanding	\$ 189,114	\$ 30,113	\$ -	\$ 626	\$ 7,759	\$ 2,755
Accounts payable and other liabilities	1,865,670	546,165	187	60,664	215,694	110,151
Income tax refunds payable (Note 16)	479,084	-	-	-	-	-
Amounts due to other funds (Note 20)	26,272	469,006	1,302	99,846	131	11,095
Amounts due to component units	2,427	66	-	11,762	-	-
Amounts due to primary government	-	-	-	-	-	-
Bonds and notes payable (Note 15)	-	44,465	-	180,146	-	10,128
Interest payable	-	-	-	2,042	-	-
Deferred revenue	121,975	7,171	-	14	489	1,211
Obligations under security lending	-	-	-	-	580,741	-
Total Current Liabilities	<u>2,684,543</u>	<u>1,096,985</u>	<u>1,489</u>	<u>355,099</u>	<u>804,815</u>	<u>135,340</u>
Long-Term Liabilities:						
Advances from other funds (Note 20)	-	35,142	-	-	-	32,045
Prize awards payable (Note 17)	-	-	-	-	924,848	-
Deferred revenue	104,680	25,971	-	-	-	-
Bonds and notes payable (Notes 14 and 15)	-	-	-	-	-	17,558
Other long-term liabilities (Notes 14, 18, and 19)	-	-	-	-	1,697	96,321
Total Liabilities	<u>2,789,222</u>	<u>1,158,098</u>	<u>1,489</u>	<u>355,099</u>	<u>1,731,359</u>	<u>281,264</u>
Fund Equity and Other Credits:						
Investment in general fixed assets	-	-	-	-	-	-
Contributed capital (Note 22)	-	-	-	-	-	9,908
Reserved retained earnings (Note 23)	-	-	-	-	-	-
Unreserved retained earnings (Note 23)	-	-	-	-	182,814	81,762
Reserved fund balance (Note 24)	1,210,198	1,125,413	-	15,610	-	-
Unreserved fund balance (deficit) (Note 24)	55,172	1,561,102	283,737	(154,903)	-	-
Total Fund Equity and Other Credits	<u>1,265,370</u>	<u>2,686,515</u>	<u>283,737</u>	<u>(139,293)</u>	<u>182,814</u>	<u>91,670</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 4,054,592</u>	<u>\$ 3,844,613</u>	<u>\$ 285,226</u>	<u>\$ 215,806</u>	<u>\$ 1,914,173</u>	<u>\$ 372,934</u>

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

STATE OF MICHIGAN
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS
 SEPTEMBER 30, 1998
 (In Thousands)

	FIDUCIARY	ACCOUNT GROUPS		TOTALS	COMPONENT
	FUND TYPES	GENERAL	GENERAL	PRIMARY	
	TRUST	FIXED	LONG-TERM	GOVERNMENT	UNITS
	AND AGENCY	ASSETS	OBLIGATIONS	(MEMORANDUM ONLY)	
ASSETS					
Current Assets:					
Cash	\$ 4,036	\$ -	\$ -	\$ 12,624	\$ 558,904
Equity in Common Cash (Note 5)	335,132	-	-	3,222,858	11,639
Taxes, interest, and penalties receivable (Note 6)	126,034	-	-	2,206,968	-
Amounts due from other funds (Note 20)	22,726	-	-	620,960	-
Amounts due from component units	401	-	-	4,123	297
Amounts due from primary government	-	-	-	-	10,556
Amounts due from federal agencies	26,270	-	-	1,336,344	30,940
Amounts due from local units	19,326	-	-	290,914	487,294
Inventories	-	-	-	54,305	18,142
Investments (Note 8)	4,783,990	-	-	5,299,145	791,591
Securities lending collateral (Note 8)	1,746,544	-	-	2,327,285	-
Other current assets	370,477	-	-	848,204	376,187
Total Current Assets	<u>7,434,937</u>	<u>-</u>	<u>-</u>	<u>16,223,730</u>	<u>2,285,551</u>
Taxes, interest, and penalties receivable (Note 6)	-	-	-	87,055	-
Advances to other funds (Note 20)	-	-	-	79,564	-
Advances to component units	-	-	-	-	1
Amounts due from federal agencies	-	-	-	5,592	-
Amounts due from local units	4,566	-	-	282,354	1,128,239
Mortgages and loans receivable (Note 9)	-	-	-	-	2,478,086
Investments (Note 8)	42,820,211	-	-	44,065,412	2,245,991
Property, plant and equipment (Note 10)	-	3,024,955	-	3,138,234	1,622,735
Other noncurrent assets	430,577	-	-	520,651	165,284
Amount available for retirement of bonds	-	-	283,737	283,737	-
Amount to be provided for bond retirement	-	-	3,701,850	3,701,850	-
Amounts to be provided for other long-term obligations	-	-	1,671,330	1,671,330	-
Total Assets	<u>\$ 50,690,292</u>	<u>\$ 3,024,955</u>	<u>\$ 5,656,917</u>	<u>\$ 70,059,507</u>	<u>\$ 9,925,886</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Current Liabilities:					
Warrants outstanding	\$ 25,044	\$ -	\$ -	\$ 255,411	\$ -
Accounts payable and other liabilities	248,814	-	-	3,047,346	228,601
Income tax refunds payable (Note 16)	-	-	-	479,084	-
Amounts due to other funds (Note 20)	13,308	-	-	620,960	-
Amounts due to component units	-	-	-	14,254	-
Amounts due to primary government	-	-	-	-	5,575
Bonds and notes payable (Note 15)	-	-	-	234,739	586,200
Interest payable	-	-	-	2,042	72,976
Deferred revenue	7,191	-	-	138,052	58,032
Obligations under security lending	1,746,544	-	-	2,327,285	-
Total Current Liabilities	<u>2,040,901</u>	<u>-</u>	<u>-</u>	<u>7,119,172</u>	<u>951,384</u>
Long-Term Liabilities:					
Advances from other funds (Note 20)	12,377	-	-	79,564	-
Prize awards payable (Note 17)	-	-	-	924,848	-
Deferred revenue	166	-	-	130,816	435
Bonds and notes payable (Notes 14 and 15)	-	-	3,985,587	4,003,145	4,629,191
Other long-term liabilities (Notes 14, 18, and 19)	2,422,397	-	1,671,330	4,191,745	1,202,577
Total Liabilities	<u>4,475,841</u>	<u>-</u>	<u>5,656,917</u>	<u>16,449,288</u>	<u>6,783,587</u>
Fund Equity and Other Credits:					
Investment in general fixed assets	-	3,024,955	-	3,024,955	1,157,485
Contributed capital (Note 22)	-	-	-	9,908	635,575
Reserved retained earnings (Note 23)	-	-	-	-	355,749
Unreserved retained earnings (Note 23)	-	-	-	264,576	479,084
Reserved fund balance (Note 24)	42,711,145	-	-	45,062,366	197,518
Unreserved fund balance (deficit) (Note 24)	3,503,306	-	-	5,248,414	316,889
Total Fund Equity and Other Credits	<u>46,214,451</u>	<u>3,024,955</u>	<u>-</u>	<u>53,610,219</u>	<u>3,142,300</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 50,690,292</u>	<u>\$ 3,024,955</u>	<u>\$ 5,656,917</u>	<u>\$ 70,059,507</u>	<u>\$ 9,925,886</u>

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

STATE OF MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	GOVERNMENTAL FUND TYPES			GOVERNMENTAL	FIDUCIARY	TOTALS	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	FUND TYPE CAPITAL PROJECTS	FUND TYPE EXPENDABLE TRUST	PRIMARY GOVERNMENT (MEMORANDUM ONLY)	COMPONENT UNITS
REVENUES							
Taxes	\$ 10,633,414	\$ 9,992,611	\$ -	\$ -	\$ 1,043,213	\$ 21,669,238	\$ -
From federal agencies	6,884,279	795,211	-	28	117,664	7,797,182	-
From local agencies	121,076	44,367	-	-	30,044	195,487	-
From services	107,117	506	-	-	-	107,623	134
From licenses and permits	200,496	176,413	-	-	-	376,909	10,579
Special Medicaid reimbursements	585,179	-	-	-	-	585,179	-
Miscellaneous	418,286	282,267	25,156	8,575	440,090	1,174,374	1,945
Total Revenues	18,949,848	11,291,374	25,156	8,603	1,631,012	31,905,992	12,658
EXPENDITURES							
Current:							
General government	962,391	40,672	750	-	93,786	1,097,598	-
Education	2,092,641	9,369,487	502	25,914	-	11,488,544	100
Family independence services	3,260,996	1,653	-	-	-	3,262,649	-
Public safety and corrections	1,716,396	3,709	-	-	28,962	1,749,067	-
Conservation, environment, recreation, and agriculture	266,778	179,599	-	-	-	446,377	-
Labor, commerce, and regulatory	603,719	159,765	-	-	1,055,034	1,818,518	-
Health services	6,781,614	-	-	-	3,342	6,784,956	-
Transportation	999	1,555,083	-	-	132,650	1,688,733	9,612
Tax expenditures (Note 16)	477,000	-	-	-	-	477,000	-
Capital outlay	39,140	859,370	-	57,432	-	955,941	-
Intergovernmental-revenue sharing	1,381,009	-	-	-	-	1,381,009	-
Debt service:							
Bond principal retirement	-	-	185,666	-	-	185,666	-
Bond interest and fiscal charges	-	-	183,562	-	-	183,562	-
Capital lease payments (Note 13)	57,650	1,254	-	-	-	58,905	-
Total Expenditures	17,640,332	12,170,593	370,481	83,346	1,313,774	31,578,526	9,712
Excess of Revenues over (under) Expenditures	1,309,516	(879,218)	(345,325)	(74,744)	317,238	327,467	2,946
OTHER FINANCING SOURCES (USES)							
Proceeds from bond and bond anticipation note issues	-	251,454	-	488,094	-	739,548	-
Proceeds from refunding bond issue	-	-	421,227	-	-	421,227	-
Payment to refunded bond escrow agent	-	-	(419,478)	-	-	(419,478)	-
Capital lease acquisitions	26,518	2,508	-	-	-	29,027	-
Operating transfers from other funds	295,968	2,112,737	407,136	152,836	6,543	2,975,220	-
Operating transfers from component units	187	-	-	-	-	187	-
Operating transfers to other funds	(654,472)	(1,357,654)	(5,804)	(167,743)	(60,921)	(2,246,594)	(250)
Operating transfers to component units	(552,920)	-	-	(79,791)	-	(632,711)	-
Total Other Financing Sources (Uses)	(884,719)	1,009,045	403,081	393,396	(54,378)	866,426	(250)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	424,797	129,827	57,756	318,653	262,860	1,193,893	2,696
Fund Balances - Beginning of fiscal year - restated (Note 4)	893,076	2,522,988	225,981	(457,946)	3,240,446	6,424,544	20,985
Equity transfers from other funds (Note 22)	-	33,700	-	-	994	34,694	-
Equity transfers to other funds (Note 22)	(35,149)	-	-	-	(994)	(36,143)	-
Equity transfers to component units (Note 22)	(17,354)	-	-	-	-	(17,354)	-
Fund Balances - End of fiscal year	\$ 1,265,370	\$ 2,686,515	\$ 283,737	\$ (139,293)	\$ 3,503,306	\$ 7,599,635	\$ 23,681

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

STATE OF MICHIGAN
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

<u>Statutory/Budgetary Basis</u>	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	\$ 10,710,213	\$ 10,633,414	\$ (76,799)
From federal agencies	6,886,117	6,884,279	(1,838)
From local agencies	121,076	121,076	-
From services	107,117	107,117	-
From licenses and permits	200,496	200,496	-
Special Medicaid reimbursements	585,179	585,179	-
Miscellaneous	418,286	418,286	-
Operating transfers in	296,155	296,155	-
Total Revenues and Other Sources	19,324,639	19,246,002	(78,637)
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Legislative Branch	140,961	139,240	1,722
Judicial Branch	207,396	207,048	348
Executive Branch:			
Agriculture	73,360	73,076	284
Attorney General	43,295	43,135	160
Civil Rights	13,998	13,961	37
Civil Service	29,756	29,706	50
Colleges and Universities Grants	1,874,120	1,873,592	528
Community Health	7,280,978	7,268,381	12,598
Consumer and Industry Services	258,947	256,481	2,466
Corrections	1,339,700	1,324,690	15,010
Education	1,151,727	1,149,025	2,702
Environmental Quality	126,406	126,336	70
Executive Office	5,151	5,121	30
Family Independence Agency	3,312,461	3,279,148	33,313
Management and Budget	415,269	382,280	32,989
Michigan Jobs Commission	459,324	446,435	12,888
Military and Veterans Affairs	78,868	76,670	2,198
Natural Resources	92,673	92,002	671
State	156,231	154,378	1,853
State Police	355,415	354,688	727
Transportation	999	999	-
Treasury	2,244,916	2,242,358	2,559
Intrafund expenditure reimbursements	(594,733)	(594,733)	-
Total Expenditures, Operating Transfers Out, and Encumbrances	19,067,218	18,944,016	123,202
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 257,421	301,986	\$ 44,565
Reconciling Items (Note 3):			
Encumbrances at September 30		122,811	
Funds not annually budgeted		-	
Net Reconciling Items		122,811	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		424,797	
FUND BALANCES			
Beginning balances - restated		893,076	
Equity transfers from other funds		-	
Equity transfers to other funds		(35,149)	
Equity transfers to component units		(17,354)	
Ending balances (GAAP Basis)		\$ 1,265,370	

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

STATE OF MICHIGAN
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	SPECIAL REVENUE FUNDS		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	\$ 9,938,758	\$ 9,935,158	\$ (3,600)
From federal agencies	738,275	738,275	-
From local agencies	42,889	42,981	92
From services	-	506	506
From licenses and permits	177,376	176,412	(964)
Special Medicaid reimbursements	-	-	-
Miscellaneous	215,319	215,685	366
Operating transfers in	<u>2,095,732</u>	<u>2,095,732</u>	-
Total Revenues and Other Sources	<u>13,208,348</u>	<u>13,204,748</u>	<u>(3,600)</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Legislative Branch	-	-	-
Judicial Branch	-	-	-
Executive Branch:			
Agriculture	-	-	-
Attorney General	-	-	-
Civil Rights	-	-	-
Civil Service	-	-	-
Colleges and Universities Grants	-	-	-
Community Health	-	-	-
Consumer and Industry Services	159,571	159,571	-
Corrections	-	-	-
Education	9,392,652	9,376,436	16,216
Environmental Quality	-	-	-
Executive Office	-	-	-
Family Independence Agency	1,664	1,664	-
Management and Budget	212,000	212,000	-
Michigan Jobs Commission	-	-	-
Military and Veterans Affairs	4,692	3,759	934
Natural Resources	153,434	145,283	8,150
State	-	-	-
State Police	-	-	-
Transportation	3,455,373	3,354,923	100,450
Treasury	40,322	38,605	1,717
Intrafund expenditure reimbursements	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>13,419,708</u>	<u>13,292,242</u>	<u>127,467</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (211,360)</u>	<u>(87,493)</u>	<u>\$ 123,867</u>
Reconciling Items (Note 3):			
Encumbrances at September 30		61,680	
Funds not annually budgeted		<u>155,640</u>	
Net Reconciling Items		<u>217,320</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>129,827</u>	
FUND BALANCES			
Beginning balances - restated		2,522,988	
Equity transfers from other funds		33,700	
Equity transfers to other funds		-	
Equity transfers to component units		-	
Ending balances (GAAP Basis)		<u>\$ 2,686,515</u>	

STATE OF MICHIGAN
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL AND SPECIAL REVENUE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands) TOTALS

<u>Statutory/Budgetary Basis</u>	(MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	\$ 20,648,971	\$ 20,568,572	\$ (80,399)
From federal agencies	7,624,392	7,622,555	(1,838)
From local agencies	163,965	164,057	92
From services	107,117	107,623	506
From licenses and permits	377,871	376,908	(964)
Special Medicaid reimbursements	585,179	585,179	-
Miscellaneous	633,605	633,971	366
Operating transfers in	<u>2,391,887</u>	<u>2,391,887</u>	<u>-</u>
Total Revenues and Other Sources	<u>32,532,988</u>	<u>32,450,751</u>	<u>(82,237)</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Legislative Branch	140,961	139,240	1,722
Judicial Branch	207,396	207,048	348
Executive Branch:			
Agriculture	73,360	73,076	284
Attorney General	43,295	43,135	160
Civil Rights	13,998	13,961	37
Civil Service	29,756	29,706	50
Colleges and Universities Grants	1,874,120	1,873,592	528
Community Health	7,280,978	7,268,381	12,598
Consumer and Industry Services	418,518	416,052	2,466
Corrections	1,339,700	1,324,690	15,010
Education	10,544,380	10,525,462	18,918
Environmental Quality	126,406	126,336	70
Executive Office	5,151	5,121	30
Family Independence Agency	3,314,125	3,280,812	33,313
Management and Budget	627,269	594,280	32,989
Michigan Jobs Commission	459,324	446,435	12,888
Military and Veterans Affairs	83,561	80,429	3,132
Natural Resources	246,107	237,286	8,822
State	156,231	154,378	1,853
State Police	355,415	354,688	727
Transportation	3,456,372	3,355,922	100,450
Treasury	2,285,238	2,280,962	4,276
Intrafund expenditure reimbursements	<u>(594,733)</u>	<u>(594,733)</u>	<u>-</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>32,486,927</u>	<u>32,236,258</u>	<u>250,669</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 46,061</u>	<u>214,493</u>	<u>\$ 168,432</u>
Reconciling Items (Note 3):			
Encumbrances at September 30		184,491	
Funds not annually budgeted		<u>155,640</u>	
Net Reconciling Items		<u>340,131</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>554,624</u>	
FUND BALANCES			
Beginning balances - restated		3,416,064	
Equity transfers from other funds		33,700	
Equity transfers to other funds		(35,149)	
Equity transfers to component units		<u>(17,354)</u>	
Ending balances (GAAP Basis)		<u>\$ 3,951,885</u>	

STATE OF MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS AND FUND BALANCES
PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

	PROPRIETARY FUND TYPES		TOTALS PRIMARY GOVERNMENT	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	(MEMORANDUM ONLY)	
OPERATING REVENUES				
Operating revenues	\$ 2,193,976	\$ 747,945	\$ 2,941,921	\$ 53,470
Interest income	-	-	-	348,178
Investment revenue (net)	-	-	-	90,769
Miscellaneous	-	-	-	91,047
	<u>2,193,976</u>	<u>747,945</u>	<u>2,941,921</u>	<u>583,464</u>
OPERATING EXPENSES				
Salaries, wages, and other administrative	197,878	146,428	344,307	65,607
Interest expense	-	-	-	265,743
Depreciation	688	21,449	22,137	295
Purchases for resale	394,069	33,293	427,362	354
Purchases for prison industries	-	12,620	12,620	-
Lottery prize awards	892,674	-	892,674	-
Premiums and claims	-	567,250	567,250	-
Other operating expenses	747	45,499	46,246	146,392
	<u>1,486,055</u>	<u>826,540</u>	<u>2,312,595</u>	<u>478,391</u>
Total Operating Expenses	<u>1,486,055</u>	<u>826,540</u>	<u>2,312,595</u>	<u>478,391</u>
Operating Income (Loss)	<u>707,920</u>	<u>(78,595)</u>	<u>629,326</u>	<u>105,073</u>
NONOPERATING REVENUES (EXPENSES)				
Specific tax on spirits	8,846	-	8,846	-
Federal grant revenue	-	-	-	42,657
Interest revenue	6,683	-	6,683	4,452
Investment revenue (net)	190,494	-	190,494	-
Other nonoperating revenues	219	54	273	45,017
Nonoperating grants	-	-	-	(104,653)
Amortization of prize award obligation discount	(75,928)	-	(75,928)	-
Interest expense	(24,496)	(1,677)	(26,173)	(248)
Other nonoperating expenses	(63)	(663)	(726)	(58)
	<u>105,756</u>	<u>(2,286)</u>	<u>103,470</u>	<u>(12,832)</u>
Total Nonoperating Revenues (Expenses)	<u>105,756</u>	<u>(2,286)</u>	<u>103,470</u>	<u>(12,832)</u>
Income (Loss) Before Operating Transfers	<u>813,676</u>	<u>(80,880)</u>	<u>732,796</u>	<u>92,241</u>
OPERATING TRANSFERS				
Operating transfers from primary government	-	-	-	2,299
Operating transfers to other funds	(728,269)	(357)	(728,626)	-
Operating transfers to primary government	-	-	-	(13)
	<u>(728,269)</u>	<u>(357)</u>	<u>(728,626)</u>	<u>2,286</u>
Total Operating Transfers In (Out)	<u>(728,269)</u>	<u>(357)</u>	<u>(728,626)</u>	<u>2,286</u>
Net Income (Loss)	85,407	(81,237)	4,170	94,527
Retained Earnings and Fund Balances -				
Beginning of fiscal year - restated	<u>95,958</u>	<u>162,999</u>	<u>258,957</u>	<u>740,306</u>
Equity transfers from other funds	1,449	35	1,484	-
Equity transfers to other funds	-	(35)	(35)	-
Retained Earnings and Fund Balances -				
End of fiscal year	<u>\$ 182,814</u>	<u>\$ 81,762</u>	<u>\$ 264,576</u>	<u>\$ 834,833</u>

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

STATE OF MICHIGAN
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	ENTERPRISE	INTERNAL SERVICE	TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)	COMPONENT UNITS
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 707,920	\$ (78,595)	\$ 629,326	\$ 105,073
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	688	21,449	22,137	295
Amortization of deferred items (net)	-	-	-	(649)
Interest (nonprogram) and investment income	-	(615)	(615)	(158,572)
Interest expense	-	-	-	265,743
Other adjustments	208	-	208	279
Changes in assets and liabilities:				
Amounts due from other funds	-	(5,014)	(5,014)	-
Amounts due from primary government	-	-	-	1,516
Amounts due from federal agencies	-	12	12	(10,505)
Amounts due from local units	-	-	-	8,767
Inventories	7,702	1,663	9,365	18
Mortgages and loans receivable (program loans)	-	-	-	(122,075)
Other assets	1,869	(8,827)	(6,958)	(8,166)
Accounts payable and other liabilities	(96,594)	(586)	(97,181)	56,874
Amounts due to other funds	(1,068)	2,195	1,127	(298)
Amounts due to primary government	-	-	-	328
Deferred revenue	472	(242)	230	3,739
Tuition benefit obligation (nonaccretion portion)	-	-	-	2,074
Net cash provided (used) by operating activities	\$ 621,197	\$ (68,561)	\$ 552,636	\$ 144,441
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes	\$ -	\$ -	\$ -	\$ 1,146,522
Principal repayments on bonds and notes	-	-	-	(987,171)
Interest paid	-	-	-	(246,897)
Loans or loan repayments from other funds	-	1,095	1,095	-
Specific tax on spirits	8,846	-	8,846	-
Grants received from federal government	-	-	-	184,782
Nonoperating grants	-	-	-	(80,759)
Operating transfers from primary government	-	-	-	2,299
Operating transfers to other funds	(728,269)	(357)	(728,626)	-
Operating transfers to primary government	-	-	-	(13)
Equity transfers from other funds	1,449	35	1,484	-
Equity transfers to other funds	-	(35)	(35)	-
Other noncapital financing provided	-	-	-	44,847
Other noncapital financing used	-	-	-	(26,040)
Net cash provided (used) by noncapital financing activities	\$ (717,974)	\$ 738	\$ (717,236)	\$ 37,569
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	\$ (207)	\$ (23,204)	\$ (23,410)	\$ (799)
Principal paid on bond and loan maturities	-	(9,606)	(9,606)	-
Interest paid on revenue bonds	-	-	-	(382)
Capital lease payments (including imputed interest expense)	-	(1,289)	(1,289)	-
Proceeds from sale of property, plant, and equipment	11	896	907	-
Net cash provided (used) by capital and related financing activities	\$ (196)	\$ (33,203)	\$ (33,399)	\$ (1,182)

STATE OF MICHIGAN
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	ENTERPRISE	INTERNAL SERVICE	TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)	COMPONENT UNITS
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	\$ (22,126)	\$ -	\$ (22,126)	\$ (1,446,777)
Proceeds from sale and maturities of investment securities	125,876	-	125,876	1,083,071
Interest and dividends on investments	6,632	-	6,632	114,964
Proceeds from securities lending activities	25,592	-	25,592	-
Expenses from securities lending activities	(24,496)	-	(24,496)	-
Net cash provided (used) by investing activities	\$ 111,478	\$ -	\$ 111,478	\$ (248,742)
Net cash provided (used) - all activities	\$ 14,506	\$ (101,026)	\$ (86,520)	\$ (67,913)
Cash and cash equivalents at beginning of year - restated	55,485	199,185	254,670	404,219
Cash and cash equivalents at end of year	\$ 69,990	\$ 98,159	\$ 168,150	\$ 336,305
 RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Per balance sheet classifications:				
Cash	\$ 1,638	\$ 15	\$ 1,653	\$ 324,666
Equity in common cash	76,111	100,899	177,010	11,639
Warrants outstanding	(7,759)	(2,755)	(10,514)	-
Cash and cash equivalents at end of year	\$ 69,990	\$ 98,159	\$ 168,150	\$ 336,305
 SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Cost of capital assets acquisitions financed by capital leases or contributed by other funds				
	\$ -	\$ 1,715	\$ 1,715	\$ -
Increase in contributed capital	-	(90)	(90)	-
Gain (loss) on disposal of capital assets	-	(96)	(96)	-
Total noncash investing, capital, and financing activities	\$ -	\$ 1,530	\$ 1,530	\$ -

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

STATE OF MICHIGAN
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	TOTAL PENSION TRUST FUNDS
Additions:	
Contributions:	
From members	\$ 297,846
From employers	1,259,384
From other plans	<u>148,792</u>
Total contributions	1,706,021
Investment income:	
Net appreciation (depreciation) in fair value of investments	1,852,408
Interest, dividends, and other	1,416,448
Securities lending income	<u>76,075</u>
Total investment income (loss)	3,344,931
Less investment expense:	
Investment activity expense	32,281
Securities lending expense	<u>73,642</u>
Net investment income (loss)	3,239,009
Miscellaneous income	<u>1,130</u>
Total additions	<u>4,946,161</u>
Deductions:	
Benefits paid to participants or beneficiaries	1,963,047
Medical, dental, and life insurance for retirees	536,027
Refunds and transfers to other systems	170,514
Administrative expense	<u>19,920</u>
Total deductions	<u>2,689,508</u>
Net increase	2,256,653
Net plan assets held in trust for pension and postemployment health-care benefits - Beginning of fiscal year (Note 11)	<u>40,454,493</u>
Net plan assets held in trust for pension and postemployment health-care benefits - End of fiscal year	<u>\$ 42,711,145</u>
Reconciliation of net increase in assets:	
Net increase in assets held in trust for pension benefits	\$ 2,280,555
Net increase in assets held in trust for postemployment benefits	<u>(23,903)</u>
Total net increase	<u>\$ 2,256,653</u>

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

STATE OF MICHIGAN
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 1998
 (In Thousands)

	<u>TOTAL COMPONENT UNITS</u>
REVENUES AND OTHER ADDITIONS	
Unrestricted current fund revenues	\$ 810,765
Government grants and contracts - restricted	279,560
Private gifts, grants, and contracts - restricted	58,642
Investment income - restricted	21,496
Realized gains on investments - unrestricted	3,709
Realized gains on investments - restricted	543
Interest on loans receivable	1,907
Expended for plant facilities	234,444
Retirement of indebtedness	70,142
Other sources - restricted	<u>17,953</u>
Total revenues and other additions	<u>1,499,162</u>
EXPENDITURES AND OTHER DEDUCTIONS	
Educational and general expenditures	1,284,795
Auxiliary enterprises expenditures	242,028
Indirect costs recovered	2,776
Refunded to grantors	131
Loan cancellations and write-offs	1,723
Administrative and collection costs	732
Expended for plant facilities	233,528
Retirement of indebtedness	71,434
Interest on indebtedness	27,773
Disposal of plant facilities	11,033
Depreciation	<u>75,036</u>
Total expenditures and other deductions	<u>1,950,988</u>
TRANSFERS	
Operating transfers from primary government	<u>576,136</u>
Net increase (decrease) for the year	<u>124,309</u>
Total Fund Equity and Other Credits - Beginning of fiscal year - restated	<u>1,516,393</u>
Total Fund Equity and Other Credits - End of fiscal year	<u>\$ 1,640,703</u>

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

STATE OF MICHIGAN
**COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS
AND CHANGES IN FUND BALANCES**
STATE UNIVERSITIES
FISCAL YEAR ENDED JUNE 30, 1998
(In Thousands)

	<u>TOTAL COMPONENT UNITS</u>
REVENUES	
Tuition and fees	\$ 465,775
Governmental contracts and grants	277,412
Private gifts, grants and contracts	62,069
Indirect cost recoveries (deduct)	7,939
Endowment income	2,948
Other investment income	21,953
Sales and services of educational activities	51,601
Sales and services of auxiliary activities, net	240,562
Other sources	<u>5,336</u>
TOTAL REVENUES	<u>1,135,595</u>
EXPENDITURES	
Instruction	484,294
Research	50,975
Public service	49,995
Academic support	119,299
Student services	98,182
Institutional support	129,166
Operation and maintenance of plant	97,351
Scholarships and fellowships	304,135
Auxiliary activities	<u>214,911</u>
TOTAL EXPENDITURES	<u>1,548,308</u>
MANDATORY TRANSFERS (IN) OUT	
Student services-loan fund matching grant	653
Debt service	36,466
Research and other matching grants	<u>343</u>
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	<u>1,585,770</u>
OTHER TRANSFERS AND (ADDITIONS) DEDUCTIONS	
Operating transfers from primary government	(522,772)
OTHER TRANSFERS (IN) OUT	
Capital improvements	27,171
Other	<u>27,946</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>1,118,115</u>
REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS	17,479
Fund Balances - Beginning of fiscal year - restated	179,714
Change in restricted revenue held for future expenditures	<u>1,227</u>
Fund Balances - End of fiscal year	<u>\$ 198,420</u>

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

STATE OF MICHIGAN
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NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

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STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The following is a summary of the significant policies:

A. Reporting Entity

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and "component units." The primary government includes all funds, account groups, departments and agencies, bureaus, boards, commissions, and those authorities which are considered an integral part of the primary government. The component units are legally separate governmental organizations for which the State's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity. The criteria for determining financial accountability include the following considerations: 1) appointment of a voting majority of an organization's governing authority and the ability of the primary government to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or 2) an organization is fiscally dependent on the primary government.

Related Organizations

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

Blended Component Units

Legally separate organizations that have boards appointed by the primary government and which provide services primarily to benefit the State are reported as though they were part of the State's primary government using the blending method. The State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority are reported in this manner.

Discretely Presented Component Units

Most component units are reported in the combined financial statements in separate discrete columns, that are labeled as "Component Units." This separate reporting to the right of the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" column emphasizes that these organizations are legally separate from the State's primary government. All of the component units are reported in a single column on the Combined Balance Sheet; the component units' operations are reported on the appropriate combined statement(s), depending on the primary activities of the component unit and the related measurement focus and basis of accounting (i.e., governmental, proprietary, or university component units).

The Mackinac Bridge Authority (MBA) and the Michigan Higher Education Facilities Authority (MHEFA) use the modified accrual basis, and their operating results are presented with the

governmental fund types on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances. The MBA accounts for the operation of the Mackinac Bridge and the MHEFA accounts for the administration of no commitment debt issued for the benefit of private institutions of higher education. The governing body of each organization is appointed by the primary government.

The following component units use accrual accounting, and their operating results are presented with the proprietary type funds on the Combined Statement of Revenues, Expenses, and Changes in Retained Earnings and Fund Balances and the Combined Statement of Cash Flows with the proprietary fund type funds. The governing body of each of these component units is appointed by the primary government. The Michigan State Hospital Finance Authority accounts for the administration of limited obligation debt issued for the benefit of hospitals. The Michigan Education Trust offers contracts which, for actuarially determined amounts, provide plan participants with future tuition at institutions of higher education. The Michigan Higher Education Student Loan Authority is a financing authority which makes loans to students or their parents. The Michigan Higher Education Assistance Authority is the State guaranty agency under the Stafford Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program. The Mackinac Island State Park Commission operates the Mackinac Island and Michilimackinac State Parks. The Michigan Strategic Fund issues loans and makes grants to private enterprises to foster economic expansion in the State. The Michigan State Housing Development Authority finances loans for the construction of multifamily and single family housing and home improvements. The Michigan Municipal Bond Authority (MMBA) assists local units by pooling their borrowing activities. The MMBA is also responsible for assisting local units with their financing of water pollution control projects. The State Bar of Michigan is a public body corporate whose membership consists of persons licensed to practice law.

Ten of the State's public universities are considered component units because they have boards appointed by the primary government. These universities all follow the American Institute of Certified Public Accountants Industry Audit Guide, Audits of Colleges and Universities (the AICPA Model.) The universities' operating results are reflected in the Combined Statement of Changes in Fund Balances and the Combined Statement of Current Funds Revenues, Expenditures, Transfers, and Changes in Fund Balances. These statements are unique to the AICPA model and only a "Component Units" column appears on these statements because the State has no institutions of higher education which are part of the primary government. The ten universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under the GASB Statement No. 14 criteria they are considered fiscally independent special-purpose governments.

Note 1 continued on next page.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Availability of Financial Statements

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

Joint Ventures

As discussed in more detail in Note #7, the State participates in two joint ventures. The financial activities of these organizations are not included in the State's financial statements, but the State's equity interest in each is recorded as an asset in the General Fixed Assets Account Group.

B. Basis of Presentation

The financial statements for most primary government funds are based upon financial transactions as they are recorded in individual funds in the State's central accounting system. The amounts presented for the Michigan Unemployment Compensation Fund, the State Building Authority, the State Employees' Deferred Compensation Fund I (457), the State Employees' Deferred Compensation Fund II (401k), the State Employees' Defined Contribution Retirement Fund, and the discretely presented component units are based upon audited financial statements and schedules issued by those agencies. The various primary government funds, including the blended State Building Authority, are combined into the various fund types described below. Note #2 provides details showing which funds are reported in each fund type.

GOVERNMENTAL FUND TYPES

General Fund: The General Fund is the State's primary operating fund. It is used to account for general purpose financial resources and those restricted revenues which are not required to be accounted for in separate funds.

Special Revenue Funds: This fund group includes operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

Debt Service Funds: This group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds: Funds which account for the acquisition or construction of major State capital facilities financed by bond proceeds and commercial paper notes are reported in this fund group.

PROPRIETARY FUND TYPES

Enterprise Funds: This fund group includes funds whose operations and finances are accounted for in a manner similar to private business enterprises. For this group, it is the intent of the State that: (a) the costs (i.e., expenses, including depreciation) of providing goods or services to the general public be financed primarily by user charges; or (b) "net income" be periodically determined and used as appropriate for capital maintenance, management control, or determination of amounts to be transferred to other operating funds as required by statute.

Internal Service Funds: This group is similar to enterprise funds, except that the goods or services are provided primarily to other agencies or funds of the State, rather than to the general public.

FIDUCIARY FUND TYPES

Trust and Agency Funds: This group includes assets held by the State on behalf of outside parties, including other governments, or on behalf of other State funds. The group is subdivided into three subtypes: (a) pension trust funds, which are accounted for in a manner similar to proprietary funds; (b) expendable trust funds, which are accounted for in a manner similar to governmental funds; and (c) agency funds, where the State's responsibility is purely custodial in nature and for which asset and liability balances, but not operating results, are included in the general purpose financial statements.

ACCOUNT GROUPS

General Fixed Assets Group: This account group is used to account for fixed assets (i.e., land, buildings, and equipment) owned by the State, except for assets of proprietary fund types which are recorded directly in those funds. Equity interests in joint ventures are also recorded in this account group.

General Long-Term Obligations Group: This account group accounts for all of the long-term obligations of the State, except for those accounted for directly in a fund.

**TOTALS PRIMARY GOVERNMENT
(MEMORANDUM ONLY)**

Amounts in the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" columns represent summations of the primary government fund types and account groups and are presented only for analytical purposes. The summations include fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "TOTALS PRIMARY GOVERNMENT (MEMORANDUM ONLY)" columns are not comparable to a consolidation.

DISCRETELY PRESENTED COMPONENT UNITS

As detailed in part A of this note, component units other than the State Building Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority are discretely presented in the combined financial statements that correspond to the accounting model they use. Those that use the governmental and proprietary models follow the same practices of the fund types that are described above.

The universities, which follow the AICPA model, use different fund types and groupings. Current funds include the universities' general, designated, auxiliary activities, and expendable restricted funds. Current funds' operating results are reflected in the "Combined Statement of Current Funds Revenues, Expenditures, Transfers, and Changes in Fund Balances." Other university fund types include student loan, endowment, plant fund, and agency funds. All university fund activities are reflected in the Combined Statement of Changes in Fund Balances. In the State's financial report, only component unit totals are reported. Readers interested in fund detail for a component unit should obtain the separately issued financial statements for that agency.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

C. Basis of Accounting

Modified Accrual

The governmental fund types, expendable trust funds, and agency funds are accounted for on the modified accrual basis of accounting. There are some departures from the modified accrual basis for statutory/budgetary purposes that have no effect on the funds' balance sheets. The nature of these departures is such that they only affect how operating results are reported. This is further explained in Note #3.

The modified accrual basis emphasizes the measurement of current financial resources and obligations (i.e., "financial flow" focus). Therefore, fund revenues and other financing sources are recorded when financial resources become "measurable and available" to finance expenditures of the current period; expenditures are recorded when fund liabilities are incurred, except for principal and interest on general long-term obligations.

Accrual

The proprietary fund types and the pension trust funds use the accrual basis of accounting. The accrual basis emphasizes the measurement of "net income," (i.e., "capital maintenance" focus). Using this basis, revenues are recognized when "earned" and expenses are recognized when "incurred." All financial resources and obligations of a fund, whether current or noncurrent, are recorded in the fund.

The primary effects of the differences in these bases are:

- (1) For governmental fund types, most long-term liabilities are reported in the General Long-Term Obligations Account Group rather than as fund liabilities. The proceeds of long-term borrowings result in increases to fund balance because "other financing sources" are credited to the fund. Fund liabilities for both principal and interest related to general long-term obligations are recognized when they become "due and payable" (i.e., when normally liquidated with expendable available financial resources). For additional explanation of the accounting basis for long-term obligations, including claims and judgments, see Note #14.
- (2) Fixed asset acquisitions are recorded as expenditures of governmental fund types in the year acquired. Such assets are capitalized in proprietary fund types, with depreciation expense recognized over the life of the asset.
- (3) For governmental fund types, revenue which is not "available" is recorded as deferred revenue. Other noncurrent assets result in reservations of fund balance. Such deferrals and reserves are usually not reflected in proprietary type funds.

As allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

AICPA Model

As a general rule, the AICPA model followed by the discretely presented State university component units uses the accrual basis of accounting; however, the basis of presentation and fund groupings are unique. For "current funds" the measurement focus is a measurement of the flow of financial resources related to the delivery of services, plant funds are used to account for fixed assets and related depreciation and financing, and student loan, endowment and agency funds are used to report other noncurrent fund activities.

D. Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for the Michigan State Housing Development Authority and the ten State universities, which have June 30 year-ends.

E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

On the Combined Statement of Cash Flows, the amount reported as "Cash and cash equivalents" is equal to the total of the amounts on the Combined Balance Sheet lines "Cash" and "Equity in common cash," less the amount of "Warrants outstanding."

Cash

Cash reported on the balance sheet consists of petty cash, undeposited receipts, deposits in transit to the common cash pool, and cash equivalents such as short-term investments with original maturities of less than 3 months used for cash management rather than investing activities.

Equity in Common Cash

The State Treasurer maintains centralized management of most State cash resources (not including component units). From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the common cash pool are described in Note #5.

Taxes Receivable

Tax revenue is accrued to the extent that it is both measurable and available. Application of the measurability and availability criteria regarding taxes is described in Note #6.

Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, and expenditures and revenues; however, there is no impact on fund balance.

Inventories

Inventories are valued at cost, primarily using the first-in, first-out flow method. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Investments

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Additional disclosures describing investments are provided in Note #8.

Security Lending Collateral

Securities on loan for cash collateral are reported in the balance sheet. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security lending transactions are provided in Note #8.

Other Assets

Other assets include receivables and other types of assets not reported on other lines.

Property, Plant, and Equipment

General fixed assets and capitalizable improvements of governmental fund types are recorded in the General Fixed Assets Account Group at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In assembling the General Fixed Assets Account Group for the first time in 1985, certain fixed asset costs were not available; historical costs of these assets at the dates of acquisitions have been estimated.

Infrastructure ("public domain") fixed assets such as undeveloped State owned land, roads, and bridges are not capitalized. Interest incurred during construction is not capitalized and depreciation is not recognized on general fixed assets.

Assets of proprietary funds are capitalized at cost upon acquisition. Interest incurred during construction is capitalized. Depreciation expense on buildings and equipment is recorded over the expected useful lives of the assets. Depreciation is calculated using the straight-line method, except for automotive equipment in the Motor Transport Fund (an internal service fund), which is depreciated using the 150% declining balance method.

Additional disclosures related to fixed assets and assets acquired through capital leases are provided in Notes #10 and #13, respectively.

Warrants Outstanding

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

Income Tax Refunds Payable

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

Deferred Revenue

Deferred revenue is recognized when cash, receivables, or other assets are received or recognized prior to their being earned or available.

Long-Term Liabilities

General long-term obligations which are not reported as fund liabilities are reported in the General Long-Term Obligations Account Group. The group, which is more fully described in Note #14, includes obligations related to the funds accounted for on the modified accrual basis for: general obligation and revenue dedicated bonds, capital leases, compensated absences, claims and judgments, workers' compensation, and claims against the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). Fund expenditures are recognized for these obligations in the period when they are "normally liquidated with available financial resources." For obligations other than claims and judgments, claims against MUSTFA, and capital leases, this means the expenditures are recognized as they become "due and payable." Note #14 explains the accounting for claims and judgments and claims against MUSTFA. Note #13 explains the accounting for capital leases.

Long-term liabilities of proprietary funds, agency funds, and discretely presented component units are recognized in the funds, except the portions of the State's workers' compensation liability for which fund distribution is not reasonably estimable. These long-term liabilities are more fully explained in Notes #13, #15, #17 and #18.

Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. The governmental and fiduciary funds' fund equity is called "fund balance."

For proprietary funds, equity attributable to accumulated earnings is referred to as "retained earnings." Equity classified as "Net unrealized gains (losses) on investments" represents the valuation of certain investments held by risk pools at market value, rather than cost. Equity provided by other funds or governmental units for property, plant, and equipment or for original start-up costs for new funds is classified as "contributed capital." Note #22 explains the basis for the amounts which are reported as contributed capital.

Reservations

Fund balances for all governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either: 1) funds legally segregated for a specific use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Details related to the make-up of reserved fund balances are reported in Note #24.

Fund balance reservations in the discretely presented component units column reflect the restricted funds of State universities. Retained earnings reservations in the discretely presented component units column primarily reflect amounts required to be set aside by bond agreements. These are described in Note #23.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

F. Revenues, Expenditures, Encumbrances, Expenses, and Other Financing Sources and Uses

Revenues

Revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance.

Revenues of governmental funds that accrue to the State independent of when expenditures are incurred by the State (such as taxes, licenses, and permits) are considered "available" if the payer incurs the obligation to the State before year-end and payment is received within 60 days of year-end, except for revenue related to delinquent taxes receivable which is recognized in the amount expected to be received within 12 months (see Note #6).

Revenues which the State earns by incurring obligations (such as matching federal grants) are generally recognized in the same period that the related obligations are recognized. Such accrued revenue is considered available even if it is not received within 60 days of year-end. This method provides improved reporting and control at the program level because it appropriately matches funding sources and uses.

Expenditures

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

Capital outlay includes expenditures for real property or infrastructure (e.g., highways). Intergovernmental-revenue sharing is used to account for the distribution of certain tax revenues which are shared with local units based upon statutory requirements. Debt service includes both interest and principal outlays related to bonds accounted for in the General Long-Term Obligations Account Group and payments on capitalized leases.

Encumbrances

Encumbrances are commitments related to unperformed (executory) contracts for goods or services. During the fiscal year, agencies may enter all types of encumbrances in the accounting system for spending control purposes. For year-end financial reporting purposes, encumbrances are recorded only to the extent that spending authority is allowed to be carried forward to the next year. The method of reflecting encumbrances in the statements is more fully described in Note #3.

Unless a statutory exception has been made, there are limits on the types of encumbrances that can be recorded as spending authority carry-forwards at year-end. Encumbrances are recorded only if the encumbrance is for an obligation that was entered into prior to September 16. Encumbrances for services are recorded only if the contract is for a nonrecurring item.

Encumbrance contracts for goods that specify delivery after September 30 are not recorded and encumbered amounts in excess of available line-item spending authority are not recognized.

Expenses

Expenses are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale).

Other Financing Sources

These additions to governmental fund balances include resources and financing provided by bond proceeds, capital leases, and operating transfers from other funds.

Other Financing Uses

These are reductions of governmental fund resources, normally resulting from operating transfers to other funds.

G. Interfund Transactions

Operating Transfers

Except as described below, transactions between primary government funds (including blended component units) are classified as operating transfers. These include most of the routine transfers of resources between funds, such as a transfer from a fund receiving revenue to the fund through which resources are to be expended. Transactions between the primary government and a discretely presented component unit are classified as operating transfers if they are in the nature of a subsidy or grant for general operations. The State's general operating appropriations and State Building Authority projects for the ten discretely presented university component units are reported in this manner.

Equity Transfers

Residual equity transfers, which are detailed in Note #22, are used to record capital contributions and other nonrecurring or nonroutine transfers of equity between funds and discretely presented component units.

Reimbursements

The reimbursement method reclassifies an expenditure/expense from the fund originally making a disbursement to another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension trust funds are appropriated in the General Fund.

Quasi - External Transactions

Certain interfund transactions are recorded as if they were occurring with an outside entity. This method is most commonly used to report revenues of the internal service funds, pension funds, and certain expendable trust funds. The paying funds report expenditures or expenses, depending upon fund type.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

The following table lists all of the funds and component units which make up the various fund types as of September 30, 1998. Operating funds which are subject to annual appropriation and for which statements comparing budget to actual are included in this

report are identified by an "***". For each individual fund or component unit listed, the SOMCAFR page number of the first financial statement for that fund or component unit is shown in parenthesis.

PRIMARY GOVERNMENT:

General Fund*

Special Revenue Funds:

Transportation Related:

- State Aeronautics Fund* (p. 76)
- State Trunkline Fund* (p. 76)
- Michigan Transportation Fund* (p. 76)
- Comprehensive Transportation Fund* (p. 77)
- Combined State Trunkline Fund Bond Proceeds Fund (p. 77)
- Combined Comprehensive Transportation Bond Proceeds Fund (p. 77)

Conservation, Environment, and Recreation Related:

- Game and Fish Protection Fund* (p. 86)
- Michigan State Waterways Fund* (p. 86)
- Marine Safety Fund* (p. 86)
- Game and Fish Protection Trust Fund (p. 87)
- State Park Improvement Fund* (p. 87)
- Recreation Bond Fund - Local Projects (p. 87)
- Environmental Protection Bond Fund (p. 87)
- Michigan Natural Resources Trust Fund* (p. 87)
- Michigan State Parks Endowment Fund (p. 87)
- Michigan Nongame Fish and Wildlife Fund* (p. 88)
- Michigan Civilian Conservation Corps Endowment Fund (p. 88)
- Forest Development Fund (p. 88)
- Michigan Underground Storage Tank Financial Assurance Fund (p. 89)
- Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 89)
- Bottle Deposits Fund (p. 89)

Regulatory and Administrative Related:

- Michigan Employment Security Act - Administration Fund* (p. 100)
- Safety Education and Training Fund* (p. 100)
- Uninsured Employers' Security Fund (p. 100)
- State Construction Code Fund* (p. 101)
- Homeowner Construction Lien Recovery Fund* (p. 101)
- State Casino Gaming Fund* (p. 101)

Other State Funds:

- Counter-Cyclical Budget and Economic Stabilization Fund* (p. 110)
- Michigan Veterans' Trust Fund* (p. 110)
- School Aid Fund* (p. 110)
- School Bond Loan Fund (p. 111)
- Children's Trust Fund* (p. 111)

Debt Service Funds:

- Combined State Trunkline Bond and Interest Redemption Fund (p. 120)
- Water Pollution Control Bond and Interest Redemption Fund (p. 120)
- Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 120)
- Recreation and Environmental Protection Bond Redemption Fund (p. 120)
- School Loan Bond Redemption Fund (p. 121)
- State Building Authority (p. 121)
- Michigan Underground Storage Tank Financial Assurance Finance Authority (p. 121)

Capital Projects Funds:

- Recreation Bond Fund - State Projects (p. 126)
- State Building Authority Advance Financing Fund (p. 126)
- State Building Authority (p. 126)

Enterprise Funds:

- Liquor Purchase Revolving Fund (p. 129)
- State Lottery Fund (p. 129)
- Department of Natural Resources Magazine Fund (p. 130)

Internal Service Funds:

- Correctional Industries Revolving Fund (p. 134)
- Motor Transport Fund (p. 134)
- Office Services Revolving Fund (p. 134)
- Information Technology Revolving Fund (p. 135)
- Risk Management Fund (p. 135)
- State Sponsored Group Insurance Fund (p. 135)

Trust Funds:

Expendable Trust Funds:

- Michigan Unemployment Compensation Fund (p. 144)
- Michigan Employment Security Act Contingent Fund (p. 144)
- Second Injury Fund (p. 144)
- State Employees' Deferred Compensation Fund II (401k) (p. 145)
- Transportation Related Trust Funds (p. 145)
- Miscellaneous Trust Accounts Fund (1) (p. 145)

Pension Trust Funds:

- Legislative Retirement Fund (p. 150)
- State Police Retirement Fund (p. 150)
- State Employees' Retirement Fund (p. 150)
- Public School Employees' Retirement Fund (p. 151)
- Judges' Retirement Fund (p. 151)
- State Employees' Defined Contribution Retirement Fund (p. 151)

Agency Funds:

- Metropolitan Planning Fund (p. 155)
- Financial Institutions Deposits Fund (p. 155)
- State Employees' Deferred Compensation Fund I (457) (p. 155)
- Environmental Quality Deposits Fund (p. 156)
- Insurance Carrier Deposits Fund (p. 156)
- State Treasurer's Escrow and Paying Agent Fund (p. 156)

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

DISCRETELY PRESENTED COMPONENT UNITS:

Governmental:

Mackinac Bridge Authority (p. 162)
Michigan Higher Education Facilities Authority (p. 162)

Proprietary:

Michigan State Hospital Finance Authority (p. 166)
Michigan Education Trust (p. 166)
Michigan Higher Education Student Loan Authority (p. 166)
Michigan Higher Education Assistance Authority (p. 166)
Mackinac Island State Park Commission (p. 167)
Michigan Strategic Fund (p. 167)
Michigan State Housing Development Authority (p. 167)
Michigan Municipal Bond Authority (p. 167)
State Bar of Michigan (p. 167)

- (1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. The

State Universities (1):

Central Michigan University (p. 174)
Eastern Michigan University (p. 174)
Ferris State University (p. 174)
Grand Valley State University (p. 174)
Lake Superior State University (p. 174)
Michigan Technological University (p. 175)
Northern Michigan University (p. 175)
Oakland University (p. 175)
Saginaw Valley State University (p. 175)
Western Michigan University (p. 175)

State provides significant funding to support these institutions; however, under the GASB Statement No. 14 criteria, they are considered fiscally independent special-purpose governments.

NOTE 3 – BUDGETING AND BUDGETARY CONTROL

A. Major Constitutional and Statutory Provisions

Balanced Budget Requirements

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

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

Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act. When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit.

Local Spending Requirements

Article 9, Section 30 of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1992-93, is 48.97%.

Final calculations establishing the State's compliance with this Constitutional provision for fiscal year 1997-98 are not yet complete. For fiscal year 1996-97, the most recent year for which final calculations are available, the proportion of total State spending paid to local units of government was determined to be 60.77%, reflecting payments that exceeded the minimum required by \$2.4 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 1997-98.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1978-79, in relation to calendar year 1977 personal income, is 9.49%. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1% or more, the amount in excess must be refunded to personal income tax payers and payers of the State's single business tax. If the limit is exceeded by an amount less than 1%, the excess may be deposited into the State's Budget Stabilization Fund. Final calculations determining the State's compliance with this Constitutional provision for fiscal year 1997-98 are not yet complete.

For fiscal year 1996-97, the most recent year for which final calculations are available, total State revenues subject to this limitation were below the constitutional limit by \$977.9 million. The State estimates that total State revenues subject to the limitation will be below the limit for fiscal year 1997-98.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund") was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn when the State's unemployment rate exceeds 8% or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature.

The following table summarizes the transactions for the fund for fiscal year 1997-98 (in millions):

Beginning unreserved fund balance	\$	579.8
Interest income		60.1
Transfer to School Aid Fund		(212.0)
Reclassified from reserved fund balance		<u>572.6</u>
Ending unreserved fund balance	\$	<u>1,000.5</u>

The transfer to the School Aid Fund is for the purpose of paying money damages to school districts and intermediate school districts as required by P.A. 144 of 1997. The reservation of fund balance for future education funding was established as required by P.A. 364 of 1996 for purposes of supporting future expenditures of the School Aid Fund in subsequent fiscal years. This requirement was not continued in fiscal year 1997-98; therefore, reserved fund balance was reclassified to unreserved.

control, such as financial plans or a limiting of expenditures to the amount of resources. The budget to actual comparative statements in this report reflect only the annually budgeted operating funds of the primary government with legally adopted budgets.

B. Budgetary Control - Governmental Fund Types

A number of different budgetary control processes are used for the various funds and programs within funds. Annual legislative appropriations and revenue estimates are provided for most "operating" funds. These annually budgeted operating funds include the General Fund and 19 of the special revenue funds. (Note #2 identifies the annually budgeted operating funds.) The other funds do not have complete legally adopted budgets, but they are usually subject to some more limited form of budgetary

Revenues

General purpose (unrestricted) revenue estimates are provided in both the original executive budget and in original legislative appropriations in order to demonstrate compliance with constitutional provisions. The Department of Treasury is responsible for updating revenue projections. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

Spending

The level and method of control provided over spending varies between funds and programs. Appropriation line items may be

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

by program, organization, project, object, or a mix of these. If a department wishes to transfer spending authority from one appropriated account to another, it must, generally, receive legislative approval. Expansion of total spending authority usually requires a supplemental appropriation. In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation (carry-back) for the amount overspent. Unexpended authorization balances lapse at year-end unless carry-forward is authorized by statute or qualifying encumbrance carry-forwards have been recorded.

For programs financed from restricted revenues, spending authorizations are generally contingent upon recognition of the related revenue. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are required before they can be spent.

Budgetary control of spending is maintained by the central accounting system at the appropriation line item account level. The large number of line items make it infeasible to include a detailed comparison of budget to actual in the State's Comprehensive Annual Financial Report. A separate report is published by the Department of Management and Budget detailing the disposition of authorizations at the line item spending account level, and is available upon request to the Office of Financial Management, Financial Reporting Section.

C. Statutory/Budgetary Presentation

In the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds, expenditures, operating 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 budgetary process. Generally accepted accounting principles require that the final legal budget be reflected in the "budget" column, therefore updated revenue estimates 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 expenditures budget column 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. The timing differences result from unspent authorizations for multi-year projects, such as capital outlay and work projects, and from restricted revenues which had not yet been appropriated for expenditure in the current year. Such authorization balances remaining at year-end are removed from the budget column to provide an "annualized" budget. "Favorable variances" reflect

restricted revenues which were appropriated and available for expenditure in the current year, and unused general purpose spending authority ("lapses"); "unfavorable variances" reflect budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

Appropriations include interagency expenditure reimbursement, where one agency provides funding to another agency within the same fund. The gross "budget" and "actual" amounts on this statement are adjusted to eliminate the duplication.

D. Statutory/Budgetary Reconciliation – General Fund and Special Revenue Funds

The statutory/budgetary basis presentation differs from generally accepted accounting principles (GAAP) in ways that do not affect ending fund balance.

Encumbrances

As explained in Note #1, the State records encumbrances at year-end only if they meet certain criteria. For budgetary reporting purposes, the recorded encumbrances are included with expenditures and operating transfers in the "Actual" columns because they are considered uses of spending authority in the year the State incurs an obligation. The "Budget" columns include encumbrance authorization balances carried over from the prior fiscal year because they provided spending authority in the current year. In the GAAP basis statements, encumbrances are not included as expenditures. The effect of this difference is reflected as a reconciling item on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds. The encumbrance of spending authority is recorded as a reservation of fund balance under both bases of accounting.

Capital Leases

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.

E. Budgetary Overexpenditures

There were no net overexpenditures by General Fund departments. There were, however, the following line-item overexpenditures of State funds incurred during the year, which represent noncompliance with State budget laws (in millions):

General Fund	
Community Health	\$ 33.6
Family Independence Agency	6.3
General Fund Total	<u>\$ 39.9</u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

During fiscal year 1997-98, the State implemented Governmental Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. The provisions of the statement require

investments to be reported at fair value rather than at cost. The effect of the change in accounting principles for investments resulted in a restatement of fund balance as of September 30, 1997, and is summarized (in millions) below:

	September 30, 1997 As Previously Reported	Net Appreciation In Fair Value of Investments	September 30, 1997 As Restated
Primary Government:			
Game and Fish Protection Trust Fund	\$ 62.1	\$.5	\$ 62.6
Michigan Natural Resources Trust Fund	199.6	1.3	201.0
Michigan State Parks Endowment Fund	64.4	.5	64.9
Michigan Veterans' Trust Fund	50.7	1.5	52.3
Children's Trust Fund	6.9	-	7.0
State Lottery Fund	-	84.2	84.2
Gifts, Bequests, and Deposits Investment Fund	41.9	.1	42.0
Component Units:			
Michigan Education Trust	43.4	54.6	98.0
Michigan Higher Education Student Loan Authority	83.4	.8	84.2
Michigan Higher Education Assistance Authority	56.6	.5	57.0
Michigan State Housing Development Authority	278.7	12.1	290.8
State Universities	389.0	34.0	423.0

The State Treasurer's Escrow and Paying Agent Fund, an agency fund, also had a restatement relating to GASB Statement No. 31. Total assets and total liabilities were restated by \$5.4 million to reflect the appreciation in the fair value of investments.

For the fiscal year ended September 30, 1997, the General Fund did not reflect Medicaid expenditures of \$178.7 million and federal

revenues of \$24.6 million. Because this error was noted during fiscal year 1997-98, the General Fund's beginning fund balance was reduced by \$154.1 million, from \$1.05 billion to \$893.1 million.

Beginning this year, the State Bar of Michigan operations are reported as a discretely presented component unit. The prior year amounts were restated to reflect the financial information for this entity.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 5 – TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's common cash pool, which is used by most State funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund, rather, each contributing fund's balance is treated as equity in the pool. Many funds, including pension funds, use their equity in the pool as a short-term investment vehicle. The Treasurer separately publishes the "Annual Report of the State Treasurer" which includes audited schedules of Common Cash Assets and Equities, Investment Portfolios of Specific Funds, and Investment Earnings.

In the State's Comprehensive Annual Financial Report, the common cash pool is not reported as a separate fund. Instead, each State fund's balance in the pool is reported on the Combined Balance Sheet line, "Equity in Common Cash."

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Whether a particular fund receives or pays interest on its balances in the pool is determined by statute or administrative policy. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets of the pool, with the accrual allocated to the various funds' equity in

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

B. Investments and Deposits

The investment authority for the common cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, and its agencies; and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State of Michigan.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The Treasurer is not prohibited by law from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in 1997-98.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. There have been no principal losses because of these programs to date. The most significant program provides for emergency loans to local units of government. The Treasurer may loan not more than a combined total of \$5 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Emergency Financial Assistance Loan Board.

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

ASSETS	
Cash on hand	\$.2
Demand deposits	138.0
Time deposits -- regular	51.2
Prime commercial paper -- at cost	3,031.1
Interest receivable	11.7
Emergency loans to local units -- at cost	2.1
Total assets	<u>\$ 3,234.4</u>
 EQUITIES	
Fund equities (net) in common cash (1):	
Primary government	\$ 3,222.8
Discretely presented component units	11.6
Net fund equities	<u>\$ 3,234.4</u>

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note #20 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the common cash pool, as required by GASB's Statement No. 3. Please see Note #8 for a description of the GASB custodial credit risk categories and for information about deposits and investments which are not part of the common cash pool.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Deposits

At September 30, 1998, the carrying amount of deposits, including time and demand deposits, was \$189.2 million. The deposits were reflected in the accounts of the banks at \$189.2 million. Of the bank balance, \$6.6 million was covered by federal depository insurance (GASB credit risk category 1), \$178.8 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and \$3.8 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totalled \$100.2 million at September 30, 1998.

Investments

Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper and emergency municipal loans) are in category 1. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 1998, the fair value of prime commercial paper was \$3.0 billion.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 6 – TAXES RECEIVABLE

In general, taxes receivable represent amounts due to the State at September 30 that were received by the State within approximately 60 days after that date. Sales, use, and income taxes are accrued to the extent that the related sales or wage payments occurred prior to October 1 and tax payments were received prior to December 1. Annual tax payments (i.e., those paid with an annual return, such as individual personal income taxes filed in April) have not been accrued because they are neither reasonably estimable nor available. Single business tax revenue is similarly accrued, with receipts received prior to December 1 (i.e., quarterly filings due November 30) recognized as revenue to the extent that the activities being taxed occurred prior to October 1. The State property tax is assessed by local units of government, as agents for the State.

Taxes are due and payable at the same time as local unit taxes and are generally divided into a summer portion payable to the local units on the succeeding July 1 and a winter portion due December 31. The State accrues revenues received by the State or the local units on its behalf during October and November. Since the property taxes are levied and received by the local units, it is not feasible for the State to measure and record delinquent amounts receivable and, therefore, no delinquent amounts are recorded or reflected in the table below. The accrued telephone and telegraph taxes are due December 1 and were received at approximately that time. Delinquent taxes are recognized to the extent that they will be collected within 12 months, except for the Michigan Unemployment Compensation Fund (expendable trust) which only records taxes received within 60 days as receivables.

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

Tax	FUND TYPES			
	General	Special Revenue	Expendable Trust	Total
Sales & use	\$ 297.8	\$ 488.3	\$ -	\$ 786.1
Individual income	693.7	-	-	693.7
Single business	754.0	-	-	754.0
State education (property) tax	-	396.5	-	396.5
Telephone & telegraph	74.5	-	-	74.5
Motor fuel	-	168.5	-	168.5
Insurance - retaliatory	43.4	-	-	43.4
Estate & inheritance	22.5	-	-	22.5
Tobacco products	23.9	42.9	-	66.8
Unemployment	-	-	126.0	126.0
Other	21.5	42.1	-	63.6
Penalties and interest	770.2	1.1	-	771.3
Gross taxes receivable	\$ 2,701.7	\$ 1,139.3	\$ 126.0	\$ 3,967.0
Less allowance for uncollectibles	(1,361.8)	(311.2)	-	(1,673.0)
Total taxes receivable (net)	<u>\$ 1,339.9</u>	<u>\$ 828.1</u>	<u>\$ 126.0</u>	<u>\$ 2,294.0</u>
As Reported on Balance Sheet				
Current taxes receivable	\$ 1,264.3	\$ 816.6	\$ 126.0	\$ 2,207.0
Noncurrent taxes receivable	75.6	11.5	-	87.1
Total taxes receivable (net)	<u>\$ 1,339.9</u>	<u>\$ 828.1</u>	<u>\$ 126.0</u>	<u>\$ 2,294.0</u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 7 – JOINT VENTURES AND AFFILIATED FOUNDATIONS

A. Joint Ventures - Primary Government

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

The International Bridge Authority of Michigan

(IBAM) at Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. The Authority is governed by a commission made up of five members, three from the State (appointed by the Governor with the consent of the Senate) and two from Canada (appointed by the St. Mary's River Bridge Company, which is controlled by the Province of Ontario). Toll revenues are used to finance the cost of operating and maintaining the bridge as well as to cover debt service requirements. General Fund revenues exceeded expenditures by \$246 thousand in 1998, after operating transfers were made to other funds for debt service and capital maintenance requirements. General Fund expenditures exceeded revenues by \$263 thousand in 1997. Budgetary and financial control over the Authority is the responsibility of the commission. The State's equity interest of \$5.2 million, in IBAM's \$6.6 million fund equity, is reflected in the General Fixed Assets Account Group.

The Great Lakes Protection Fund

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

Contribution requirements were established based upon water consumption and usage. Contributions to the Fund are permanently restricted and are not available for disbursement. Michigan is the largest contributor to the Fund, having made a contribution of \$25.0 million, constituting approximately 31% of the total. Michigan made its required contribution by issuing the Fund a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

Each of the participating seven member states is represented by two members on the GLPF's board of directors. The board members are selected by the states' respective governors. The Fund's financing and budgeting operations are controlled by the directors within requirements established by the Articles of Incorporation. Net earnings after operating expenses are divided into parts. One-third of the net earnings on total contributions is granted to the respective states in proportion to their contributions to the Fund, to be used for the purposes of the Fund. Two-thirds of the net earnings are available to the Fund to make other grants. The State's equity interest in the GLPF of \$25.0 million is reflected in the General Fixed Assets Account Group.

B. Affiliated Foundations - Discretely Presented Component Units

Several of the State university component units are affiliated with independent corporate foundations that exist for the sole purpose of soliciting, collecting, and investing donations for the benefit of the universities. The operations and net assets of these foundations are not included in the financial statements of the universities due to their independence. At June 30, 1998, net assets held by these foundations totalled \$177.9 million.

NOTE 8 – DEPOSITS AND INVESTMENTS

A. General Information

This note provides information for all deposits and investments except those of the Common Cash pool which are described in Note #5. GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

Deposits

In accordance with GASB Statement No. 3, deposits are classified into three categories of custodial credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name

Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Investments

In accordance with GASB Statement No. 3, investments are also classified into three categories of custodial credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

Certain types of investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Deposits classified as investments on the balance sheet are included in the investment tables following and are categorized using the deposit risk category definitions.

In accordance with GASB No. 28, Accounting and Financial Reporting for Securities Lending Transactions, securities lent at year-end for cash collateral have not been categorized by custodial risk, while securities lent for securities collateral have been categorized.

B. Deposits and Investments - Primary Government

Deposits

In addition to equity in the Common Cash pool, some State funds maintain deposits with financial institutions. At year-end, the carrying amount of such deposits, excluding those classified as investments, was \$(8.1) million, which was caused primarily by a net book cash overdraft in an account maintained by the Michigan Unemployment Compensation Fund. The deposits were reflected in the accounts of the banks at \$5.0 million. Of the bank balance, \$.2 million was covered by federal depository insurance or by collateral held by the State's

agent in the State's name (GASB credit risk category #1), \$3.3 million was covered by collateral held in the pledging bank's trust department in the State's name (GASB credit risk category #2), and \$1.6 million was uninsured and uncollateralized (GASB credit risk category #3).

Investments

Investment authority for the State's pension funds is found in P.A. 314 of 1965, as amended. This act allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The act has prudence standards and requires that the assets of a retirement system shall be invested solely in the interest of the participants and beneficiaries and be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the State system.

The State Treasurer is also authorized to invest a limited amount of pension funds in futures contracts. Such investments were made in Standard & Poors 500 and Standard & Poors Midcap Index futures contracts during the year.

Derivatives are used for a small amount of the pension trust fund portfolios to provide additional diversification. However, derivatives are not used for speculation and they are not used to leverage the investment portfolios. Less than 6% of the total pension trust funds portfolio has been invested from time to time in futures contracts and swap agreements. Swap agreements represent the largest category of derivatives used and total 4.1% of the total portfolio.

State statutes do not prohibit the pension funds or other State funds from participating in securities lending transactions, and the State Treasurer has authorized the agent bank to lend pension fund or other State fund securities to broker-dealers and banks pursuant to a form of loan agreement.

The investment authority for other State funds is found in their enabling statutes and/or their bond resolutions where applicable. Except as noted below, the investments of the non-pension funds are comprised mostly of United States government securities.

The State Building Authority makes diverse investments as allowed by State statute and/or bond resolutions.

Investments of the Michigan Unemployment Compensation Fund (MUCF) represent the MUCF's interest in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. The MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 1996-97, the deferred compensation plans investment activities were taken over by a private investment firm which invests as directed by members of the plan.

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

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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

	<u>GASB Category</u>				Total Carrying Value	Fair Value
	#1	#2	#3	Not Categorized		
Prime commercial paper	\$ 1,673.8	\$ -	\$ 12.8	\$ -	\$ 1,686.6	\$ 1,697.4
Short-term issues	544.8	-	-	-	544.8	549.0
Money market funds	-	-	-	117.4	117.4	117.4
Government securities	5,385.4	-	179.6	251.2	5,816.2	5,816.4
Corporate bonds and notes	4,324.0	-	-	449.8	4,773.8	4,773.8
Preferred stock	1.2	-	-	-	1.2	1.2
Equities	20,094.0	-	-	-	20,094.0	20,094.0
Mortgages	-	-	-	145.5	145.5	145.5
Real estate	309.1	-	-	3,099.0	3,408.1	3,408.1
Venture capital and leveraged buyouts	139.2	-	-	3,596.4	3,735.6	3,735.6
International	1,724.0	-	-	-	1,724.0	1,724.0
U.S. Treasury (unemployment) trust fund	-	-	-	2,428.0	2,428.0	2,428.0
Mutual funds	-	-	-	1,062.8	1,062.8	1,062.8
Pooled investment contracts	-	-	-	1,571.8	1,571.8	1,571.8
Security Lending Transactions:						
Government securities	-	-	-	1,519.7	1,519.7	1,519.7
Corporate bonds and notes	-	-	-	86.8	86.8	86.8
Equities	-	-	-	648.5	648.5	648.5
Total Investments	<u>\$ 34,195.5</u>	<u>\$ -</u>	<u>\$ 192.4</u>	<u>\$ 14,976.7</u>	<u>\$ 49,364.6</u>	<u>\$ 49,379.7</u>
<u>As Reported on Balance Sheet</u>						
Current investments					\$ 5,299.1	
Noncurrent investments					<u>44,065.4</u>	
Total Investments					<u>\$ 49,364.6</u>	

The cash collateral received on security lending transactions is \$2,327.3 million.

Pension trust fund investments represent 86% of the total investments of the primary government. Other large holders of investments were the State Lottery Fund, the State Employees' Deferred Compensation Fund I (457), and the Michigan Unemployment Compensation Fund.

The carrying value of investment funds by type for the pension trust funds are prime commercial paper of \$1,673.8 million, short-term issues of \$544.8 million, money market funds of \$50.3 million, government securities of \$5,372.6 million, corporate bonds and notes of \$4,860.6 million, preferred stock of \$1.2 million, equities of \$20,742.4 million, mortgages of \$145.5 million, real estate of \$3,408.1 million, venture capital and leveraged buyouts of \$3,735.6 million, international of \$1,724.0 million, mutual funds of \$72.3 million, and pooled investment funds of \$23.1 million. Additional detail regarding the carrying amount and fair value of pension funds is provided in Note #11.

The State Lottery Fund investments, \$1,198.9 million, are all in the form of zero coupon U.S. Treasury bonds. As described more fully in Note #17, these investments are held to provide funding for deferred prize awards.

The State's section 457 deferred compensation plan investments, \$1,885.0 million, are in the form of pooled investment funds, \$1,107.7 million, mutual funds, \$515.1 million, U.S. Treasury strips, \$251.2 million, and money market funds, \$11.0 million. Additional information on the State's deferred compensation plans is provided in Note #19.

Securities Lending Transaction

Under the authority of P.A. 314 of 1965, the State lends securities of the pension funds and the State Lottery Fund to broker-dealers and other entities for collateral that will be returned for the same securities in the future. One of the State's custodial banks manages the securities lending program and receives cash or securities as collateral. The custodian is not liable for any losses unless there is negligence or willful misconduct on its part. During the fiscal year, the agent bank lent the State's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit issued by a person other than the borrower or an affiliate of the borrower as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The State did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

During the fiscal year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 1998, such investment pool had an average duration of 64 days and an average weighted maturity of 504 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 1998, the State had no credit risk exposure to borrowers.

federal depository insurance or by collateral held by the component unit's agent in the component unit's name (GASB credit risk category #1), \$7.2 million was covered by collateral held in the pledging bank's trust department in the component unit's name (GASB credit risk category #2), and \$92.2 million was uninsured and uncollateralized (GASB credit risk category #3), and \$33.9 million was held in money market funds which are not categorized.

C. Deposits and Investments - Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component unit deposits, excluding those classified as investments, was \$115.4 million. The deposits were reflected in the accounts of the banks at \$163.1 million. Of the bank balance, \$29.7 million was covered by

Investments

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

The following table shows the carrying amounts and fair values of investments of the discretely presented component units, including deposits classified as investments on the balance sheet, by investment type and in total (in millions):

	GASB Category				Total Carrying Value	Fair Value
	#1	#2	#3	Not Categorized		
Deposits(1):						
Time deposits	\$ 3.6	\$.1	\$ 41.9	\$ 24.0	\$ 69.6	\$ 77.8
Government money market accounts	-	-	19.3	34.0	53.3	45.0
Investments:						
Commercial paper	54.5	60.7	13.6	-	128.8	128.8
Short-term notes	-	7.0	18.0	19.1	44.1	44.1
Repurchase agreements	49.7	-	47.6	-	97.3	97.3
Government securities	835.3	40.8	70.7	-	946.8	946.8
Insured mortgage backed securities	139.1	-	16.1	-	155.2	155.2
Government backed securities	59.8	3.4	84.8	480.2	628.2	628.3
Investment agreements	-	-	-	271.7	271.7	271.7
Corporate bonds and notes	277.5	8.0	45.2	-	330.7	330.7
Convertible bonds	-	-	.5	-	.5	.5
Preferred stock	131.8	-	-	.9	132.7	132.7
Equities	1.6	.2	-	9.9	11.7	11.7
Real estate	-	.1	-	.2	.3	.3
Venture capital and leveraged buyouts	-	-	.1	-	.1	.1
Government money market funds	-	-	-	305.0	305.0	305.0
Mutual funds	-	5.6	-	247.6	253.2	253.2
Pooled investment funds	-	-	-	100.0	100.0	100.0
Total Investments	\$ 1,552.9	\$ 125.9	\$ 357.8	\$ 1,492.6	3,529.2	\$ 3,529.3
Less Investments Reported as "Cash" on Balance Sheet					(491.7)	
Total Investments Per Balance Sheet					\$ 3,037.6	
<u>As Reported on Balance Sheet</u>						
Current investments					\$ 791.6	
Noncurrent investments					2,246.0	
Total Investments					\$ 3,037.6	

(1) The deposits classified as investments in the above table were reflected in the accounts of the banks in amounts equal to their carrying value and are categorized using the deposit risk category definitions.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 9 – MORTGAGES AND LOANS RECEIVABLE - DISCRETELY PRESENTED COMPONENT UNITS

Mortgages and loans receivable reported by the discretely presented component units consist of the following (in millions):

	Mortgages and Loans Receivable (Gross)	Unamortized Discount/ Premium and Deferred Loan Origin- ation Fees	Allowance for Possible Losses	Mortgages and Loans Receivable (Net)
Michigan Higher Education Student Loan Authority	\$ 619.5	\$ 8.1	\$ (.6)	\$ 627.0
Michigan Higher Education Assistance Authority	2.3	-	(1.3)	1.0
Michigan Strategic Fund	41.3	-	(26.8)	14.5
Michigan State Housing Development Authority	1,998.2	(14.2)	(35.0)	1,949.0
	<u>\$ 2,661.3</u>	<u>\$ (6.1)</u>	<u>\$ (63.7)</u>	<u>\$ 2,591.5</u>

The Michigan State Housing Development Authority had loan commitments outstanding at June 30, 1998 of \$65.7 million. The Michigan Strategic Fund had loan and grant commitments outstanding at September 30, 1998, of \$92.7 million. The loans

made by the Michigan Municipal Bond Authority are to local units of government, so those loans (\$1.62 billion) are reported on the "Amounts due from local units" lines on the Combined Balance Sheet.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 10 – PROPERTY, PLANT, AND EQUIPMENT

A. Primary Government

Proprietary Funds

Classification: The following table summarizes, by major class of asset, the recorded costs of fixed assets included in proprietary funds, as of September 30 (in millions):

<u>Classification</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Land	\$.1	\$ -
Buildings and Equipment	12.9	202.5
Construction in Progress	<u>-</u>	<u>2.7</u>
Total	13.0	205.2
Allowance for Depreciation	<u>(11.0)</u>	<u>(93.9)</u>
Net Property, Plant, and Equipment	<u>\$ 2.0</u>	<u>\$ 111.3</u>

Depreciation: Depreciation methods and useful life estimates used for buildings and equipment vary between the different funds. The estimated service lives of the respective assets range from 3 to 60 years for buildings and 2 to 25 years for equipment. Several funds in the proprietary and pension trust fund classes do not capitalize and depreciate their fixed assets if the asset costs are insignificant in comparison to total operating costs.

General Fixed Assets

Changes by Classification: The following table summarizes, by major class of asset, the changes in recorded costs for the General Fixed Assets Account Group (in millions). Increases and decreases in general fixed assets which resulted from current fiscal year transactions are reflected in the additions and deletions columns. The adjustments and reclassifications column includes the reclassification of completed construction projects from construction in progress to land and buildings and various other adjustments.

<u>Classification</u>	<u>Balance September 30, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments and Reclas- sifications</u>	<u>Balance September 30, 1998</u>
Land	\$ 262.6	\$ 3.9	\$.9	\$ (7.2)	\$ 258.4
Buildings	2,193.1	43.7	63.9	18.1	2,191.0
Equipment	434.0	53.8	40.0	(14.8)	433.0
Construction in Progress	72.7	53.0	-	(13.3)	112.3
Equity Interests in Joint Ventures	<u>32.5</u>	<u>-</u>	<u>-</u>	<u>(2.3)</u>	<u>30.2</u>
Total General Fixed Assets	<u>\$ 2,994.9</u>	<u>\$ 154.4</u>	<u>\$ 104.7</u>	<u>\$ (19.6)</u>	<u>\$ 3,025.0</u>

Funding Source: The following table summarizes the funding source of the investment in general fixed assets as of September 30 (in millions):

<u>Fund</u>	<u>Investment</u>
General Fund	\$ 1,813.0
Special Revenue Funds:	
Transportation Related	203.4
Conservation, Environment, and Recreation Related	94.5
Regulatory and Administrative Related	48.7
Capital Projects Funds	<u>865.4</u>
Total Investment in General Fixed Assets	<u>\$ 3,025.0</u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Construction in Progress: As of September 30, 1998, the State had several construction projects in progress. The estimated cost, amount authorized, and amount expended for these projects totalled \$881.1 million, \$569.1 million, and \$112.3 million, respectively.

In addition to the projects noted above, the State has planned other construction projects which were unfunded as of September 30, 1998. The costs of these projects, as well as the unfunded portion of projects currently in progress, will be funded from future years' resources.

B. Discretely Presented Component Units

The following table summarizes the recorded costs of fixed assets reported by the discretely presented component units (in millions):

	<u>Amount</u>
State Universities:	
Land	\$ 156.3
Buildings and Equipment	2,219.4
Construction in Progress	<u>233.6</u>
Total	2,609.3
Allowance for Depreciation	<u>(1,001.3)</u>
Total - State Universities	\$ 1,608.0
Other Discretely Presented Component Units	<u>14.7</u>
Total - Discretely Presented Component Units	<u><u>\$ 1,622.7</u></u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 11 – PENSION BENEFITS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

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

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

Each plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to plan members. Each plan, except MRP, is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing to the Department of Management and Budget, Office of Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-6262.

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

Plan Membership Data

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>PSERS</u>	<u>JRS</u>	<u>MRP</u>
Current active:						
Vested	77	1,177	35,235	119,201	380	524
Nonvested	45	1,043	14,482	182,815	220	8,880
Retirees & beneficiaries receiving benefits	215	2,138	36,185	116,620	514	1,726
Terminated members with vested deferred benefits	46	21	8,021	10,883	24	742

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

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

on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Significant Investments

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

Methods Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. The fair value of real estate investments is based

FUNDING POLICY

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

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

The statutory annual reconciliation process in the PSERS requires actuarial overages (shortages) to be funded in the following year. P.A. 158 of 1992 provided for funding under a five-year reconciliation smoothing method.

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

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

ANNUAL PENSION COST AND OTHER RELATED INFORMATION

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

(Amounts are in millions)	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>MRP</u>
Required contribution rates:				
State	-%	19.22%	5.41%	-%**
Plan Members	5.5***	-	-	-
Annual Pension Cost and Net Pension Obligation:				
Annual required contribution	\$ -	\$ 20.26	\$ 126.39	\$ 2.53
Interest on net pension asset	(.05)	.81	(5.04)	.34
Adjustment to annual required contribution	.16	(.51)	5.10	(.33)
Annual pension cost	.11	20.56	126.45	2.54
Contributions made	2.08	20.00	145.73	2.00
Change in net pension asset/obligation	(1.97)	.56	(19.28)	.54
Net pension (asset) obligation at beginning of fiscal year	(.66)	10.18	(62.93)	4.19
Net pension (asset) obligation at end of fiscal year	<u>\$ (2.63)</u>	<u>\$ 10.74</u>	<u>\$ (82.21)</u>	<u>\$ 4.73</u>

Significant Actuarial Assumptions used include:

Latest actuarial valuation date	9/30/98	9/30/98	9/30/98	9/30/97
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level percent open	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	5 years	38 years	38 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	None, unfunded plan
Actuarial assumption:				
Investment rate of return	7%	8%	8%	8%
Projected salary increases	4%	3-14%	3-10.5%	5%
Includes inflation at	4%	3% for one year 4% thereafter	3% for one year 4% thereafter	5%
Cost-of-living adjustments	4% for members hired before 12/1/94	2%	3%	5% for special duty retirants

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

***For participants elected prior to December 1, 1994, the required contribution rate is 7.5%. For participants elected after December 1, 1994, the required contribution rate is 5.5%.

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

Note 11 continued on next page.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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

	PSERS	JRS
Required contribution rates:		
State	6.96%	9.49%
Plan Members	3.84*	5.88
Number of participating employers	718	316

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

THREE YEAR HISTORICAL TREND INFORMATION

The following table provides a schedule of funding progress for the State's defined benefit plans:

(Amounts in millions)

	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded (Overfunded) AAL	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
LRS	9/30/98	\$ 131.8	\$ 112.9	\$ (18.9)	116.7%	\$ 6.6	(286.4)%
	9/30/97	126.8	116.3	(10.5)	109.0	7.8	(134.6)
	9/30/96	113.6	112.6	(1.0)	100.9	7.7	(12.9)
SPRS	9/30/98	974.4	943.7	(30.7)	103.2	108.2	(28.3)
	9/30/97	928.7	876.8	(51.9)	105.9	110.1	(47.2)
	9/30/96	697.9	823.5	125.6	84.8	106.8	117.5
SERS	9/30/98	9,109.0	8,374.0	(735.0)	108.8	2,108.0	(34.9)
	9/30/97	8,834.4	8,100.6	(733.8)	109.1	2,273.2	(32.3)
	9/30/96	6,678.0	7,147.3	469.3	93.4	2,515.4	18.7
PSERS	9/30/98	31,870.0	32,137.0	267.0	99.2	8,265.0	3.2
	9/30/97	30,051.0	29,792.0	(259.0)	100.9	8,027.0	(3.2)
	9/30/96	22,529.0	28,571.0	6,042.0	78.9	7,807.0	77.4
JRS	9/30/98	288.7	236.5	(52.2)	122.0	48.9	(106.7)
	9/30/97	271.5	230.5	(41.0)	117.8	49.0	(83.6)
	9/30/96	243.2	211.5	(31.7)	115.0	49.4	(64.3)
MRP*	9/30/97	-	30.3	30.3	-	.4	7,575.0

*Actuarial valuation performed biennially; September 30, 1997, is the most recent valuation date.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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

	Year	Annual Cost (APC)	Percentage Contributed	Net Pension Obligation
LRS	1995-96	\$ 2.0	105.5%	\$ (.5)
	1996-97	2.0	104.9	(.7)
	1997-98	.1	1,814.7	(2.6)
SPRS	1995-96	35.7	100.9	14.0
	1996-97	31.3	112.2	10.2
	1997-98	20.6	97.3	10.7
SERS	1995-96	262.7	108.8	(18.0)
	1996-97	243.5	118.4	(63.0)
	1997-98	126.5	115.2	(82.2)
MRP	1995-96	2.3	93.9	3.8
	1996-97	2.3	84.7	4.2
	1997-98	2.5	78.7	4.7

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

	Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
PSERS	1995-96	\$866.8	95.7 %
	1996-97	880.6	102.7
	1997-98	551.1	122.4
JRS	1995-96	6.0	103.3
	1996-97	5.6	102.6
	1997-98	5.0	4.9

REQUIRED SUPPLEMENTAL INFORMATION

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

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

Schedule of funding progress for MRP

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (b)-(a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c
9/30/97	-	30.3	30.3	-	.4	7,575.0

Information for prior years is not available. Actuarial valuation performed biennially. This schedule will be expanded until six years of information is presented.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

Schedule of Employer Contributions for MRP:

Year Ended <u>September 30</u>	Annual required <u>contribution</u>	Percentage <u>contributed</u>
1998	\$ 2.5	79.0%
1997	2.3	85.0
1996	2.3	94.3
1995	2.3	94.3
1994	2.4	81.1
1993	2.4	68.9

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

B. Defined Contribution Pension Plans

State Employees' Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (Plan) was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, and to those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The Plan is administered by the State Treasurer. The State is required to contribute 4% of annual covered payroll. The State is also required to match employee contributions up to 3% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature. Employer contributions to the plan for the year totalled \$9.6 million. Employee contributions to the plan were \$2.9 million.

As disclosed in Section A, members of the LRS, SERS and JRS were allowed to make a one time election to transfer from the defined benefit plan into the defined contribution plan. All transfers were completed as of September 30, 1998, and totalled \$148.8 million.

Component Units

In addition to the Public School Employees' Retirement System (PSERS), the State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution multiple-employer pension plan. The State

university component units are required to contribute between 8% and 12% of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF for all State university component Units was \$46.1 million for the year ending June 30, 1998. Additional plan information may be found in the separately issued financial reports of the State university component Units.

C. Other Postemployment Benefits

In addition to the pension benefits previously described in this note, State statutes require that the State provide certain postemployment benefits (OPEB) to many of its retired employees. Health, dental and vision benefits as well as life insurance coverage are provided to retirees of all pension plans except MRP. These benefits are funded on a pay-as-you-go basis, except for LRS life insurance coverage, as explained below.

The LRS life insurance benefits are paid on an advance-funded basis. The actuarial cost method and actuarial assumptions are the same as for the pension plan, as discussed in Section A. At September 30, 1998, the actuarial accrued liability for life insurance premiums was \$6.2 million with net assets available for benefits of \$10.1 million. The expense for life insurance premiums was \$.4 million in fiscal year 1997-98.

The net assets available for benefits relate to residual balances from funding provided in prior fiscal years. There were no material changes in the OPEB provisions during fiscal year 1997-98.

Following is a brief summary of the other postemployment benefits as of September 30, 1998:

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>JRS</u>	<u>PSERS</u>	<u>TOTAL</u>
Participants eligible for benefits	258	2,138	36,185	514	116,620	155,715
Contribution rates for current employees (% of payroll)	None	None	None	1.5%	None	
Percentage of pre-Medicare premiums paid by participants	None	5%	5%	10%	10% *	
Expense for year (in millions)	\$1.8	\$13.9	\$163.6	\$0.4	\$356.4	\$536.0
Net assets available for benefits (in millions)	0.4	4.5	75.6	(0.1)	143.0	223.4

*The schools that employ the plan's members pay the employer share of health costs. PSERS retirees pay the same share of health care costs required from Social Security retirees for part B Medicare coverage until Medicare coverage

begins at age 65. Dental, vision, and hearing benefits are also extended to all retirees and their beneficiaries, for which retirees pay 10% of the health premiums.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 12 – COMPENSATED ABSENCES

A. Primary Government

Plan Descriptions

Employees accumulate annual leave (vacation) balances to a maximum ranging from 240 to 300 hours. They receive a 100% termination payment upon separation based upon their final rate of pay. Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave which increases from 0 to 50% depending upon the balance of their sick leave hours.

Accounting Policy

The State has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the balance plus the State's share of social security and retirement contributions. Sick leave is valued, as explained above, at 0 to 50% plus the State's share of social security contributions. The pay rates in effect as of September 30, 1998, are used. Liabilities related to proprietary fund types are recorded in the funds. Liabilities related to governmental fund types are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The balance of the governmental fund liabilities are recorded in the General Long-Term Obligations Account Group.

The following table summarizes compensated absences liabilities of the primary government as of September 30 (in millions):

<u>FUND GROUP</u>	<u>ANNUAL</u>	<u>SICK</u>	<u>TOTAL</u>
Enterprise	\$ 1.0	\$ 1.7	\$ 2.7
Internal Service	2.6	2.9	5.5
General Long-Term Obligations	<u>213.9</u>	<u>214.8</u>	<u>428.7</u>
Total - primary government	<u>\$ 217.5</u>	<u>\$ 219.5</u>	<u>\$ 436.9</u>

B. Discretely Presented Component Units

Compensated absences liabilities of discretely presented component units totalled \$41.7 million and are primarily related to State universities.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 13 – LEASES

The State leases various assets under noncancelable leasing arrangements. Leases which constitute rental agreements are classified as "operating" leases and the resulting expenditures are recognized as incurred over the lease term. Leases which are, in substance, purchases are classified as "capital" leases and the resulting assets and liabilities are recorded at lease inception. For capital leases in governmental funds, "other financing sources" and "expenditures" are also recorded at lease inception. Lease payments are recorded as "debt service" expenditures. (As explained in Note #3, for budgetary purposes lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1-6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that the option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

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

Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
1999	\$ 34.0	\$ 27.6	\$ 27.0	\$ 11.9	\$ 66.5
2000	29.3	19.3	24.6	10.5	54.4
2001	21.0	17.0	22.5	9.7	49.2
2002	15.7	17.2	20.4	9.5	47.1
2003	10.6	17.5	18.4	9.3	45.1
2004-2008	29.5	83.5	58.3	37.6	179.4
2009-2013	4.5	33.6	16.2	14.1	64.0
2014-2018	.1	7.5	3.6	3.7	14.8
2019-2023	-	1.3	.5	.8	2.5
Total	\$ 144.9	\$ 224.5	\$ 191.4	\$ 107.1	\$ 523.0

All of the above capital leases are related to governmental fund operations and the total \$224.5 million of capital lease principal is recorded as part of the General Long-Term Obligations Account Group.

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

Leases which exist between the State and the State Building Authority are not recorded as leases for financial reporting purposes. For reporting purposes, the leases are eliminated and the liabilities of the Authority are included in the general long-term obligations account group or reported as fund liabilities in the case of proprietary type funds. Future payments to the Authority are, therefore, not included in the schedules of lease commitments below. Note #14 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

Governmental Fund Types – Primary Government

Rental expenditures incurred under operating leases totalled \$36.1 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totalled \$30.3 million, \$28.6 million, and \$11.8 million, respectively.

The historical cost of assets acquired under capital leases included in the General Fixed Assets Account Group at September 30 follows (in millions):

Buildings	\$ 287.0
Equipment	41.9
Total	\$ 328.9

Proprietary Fund Types - Primary Government

Rental expense incurred under operating leases totalled \$32.0 million during the fiscal year. Payments for capital lease principal, interest,

and executory costs totalled \$11.0 million, \$2.0 million, and \$0, respectively.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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

Year Ended September 30	Capital Leases				
	Operating Leases	Principal	Interest	Executory Costs	Total
1999	\$ 6.0	\$ 11.1	\$ 2.0	\$ -	\$ 13.0
2000	1.0	10.6	1.9	-	12.5
2001	.5	4.5	1.2	-	5.7
2002	.3	.3	.1	-	.3
2003	.2	.1	-	-	.2
2004-2008	.5	-	.1	-	.2
2009-2013	-	-	-	-	-
Total	\$ 8.5	\$ 26.6	\$ 5.3	\$ -	\$ 31.9

All of the above capital leases are related to proprietary fund operations and the capital lease principal is recorded as a liability in the respective funds as follows (in millions):

Internal Service Funds	\$ 26.6
Total	\$ 26.6

The assets acquired under capital leases are recorded as fund assets as follows (in millions):

	Internal Service Funds
Buildings	\$ -
Equipment	55.7
Total	55.7
Accumulated Depreciation	(23.6)
Net Buildings and Equipment	\$ 32.0

Discretely Presented Component Units

None of the State's component units have lease commitments which are material to the State's financial statements.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 14 – GENERAL LONG-TERM OBLIGATIONS

A. Bonded Debt

General Obligation Bonded Debt

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund (a special revenue fund). No such notes were outstanding at year-end. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15% of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. On November 13, 1997, the State issued \$900.0 million of general obligation notes which were repaid by September 30, 1998. The proceeds of the borrowings were used to meet cash flow requirements, primarily related to school aid distribution and tax refunds.

Revenue Dedicated Bonded Debt

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

Revenue bonds and commercial paper notes have been issued by the Michigan Underground Storage Tank Financial Assurance Finance Authority to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA). The \$44.5 million of commercial paper notes outstanding are recorded as liabilities of the fund and are not included in the amounts shown in the table below. Subsequent to September 30, 1998, the authority issued an additional \$.8 million in commercial paper notes. The bonds and notes are a limited obligation of the authority payable solely from dedicated revenues and do not represent a general obligation of the authority or the State.

Revenue bonds have been issued by the State Building Authority to acquire and/or construct various facilities for use by the State or institutions of higher education. Revenue bonds have also been issued to finance equipment capital lease refinancings and acquisitions. Commercial paper notes have been issued to provide temporary financing for the various activities of the authority prior to bonding. The \$180.1 million of commercial paper notes outstanding at year-end are recorded as liabilities in the authority's capital projects fund and are not included in the amounts shown in the tables below. Subsequent to September 30, 1998, the authority paid off \$90.2 million of commercial paper notes and issued an additional \$97.9 million of commercial paper notes. These bonds and notes are limited obligations of the authority and do not constitute general obligations of the authority or the State. The debt requirements of the bonds are financed through General Fund appropriations, excess bond proceeds, and investment earnings.

Note #15 provides disclosures regarding the bonds and notes payable recorded as liabilities of the discretely presented component units.

Bonds Issued and Outstanding

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

	AMOUNTS ISSUED	OUTSTANDING 9/30/98	MATURITIES		AVERAGE INTEREST RATE PERCENTAGE
			FIRST YEAR	LAST YEAR	
GENERAL OBLIGATION BONDED DEBT					
Water Pollution:					
Series III	\$ 50.0	\$ 2.0	1979	1999	4.43
Series IV	80.0	2.0	1973	1999	4.34
Recreation and Environmental Protection (1):					
Series 1989	75.0	41.3	1991	2012	6.92
HOST Series I	1.0	.2	2005	2005	3.00-14.375
Series 1992	246.3	177.0	1993	2012	6.15
College Savings Bonds - Series 1992 Mini-bonds	.5	.7	2012	2012	6.50
Series 1992 A (2)	13.9	11.4	1994	2012	6.173
Series 1993 (2)	16.7	14.8	1995	2013	5.00
Series 1995	234.3	233.1	1996	2019	5.275
Series 1998	90.0	90.0	1999	2018	4.967
School Loan Bonds:					
Series 1995	180.0	168.7	1996	2015	5.474
Series 1998	160.0	160.0	1999	2018	4.889
TOTAL GENERAL OBLIGATION BONDED DEBT	1,147.7	901.2			

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

REVENUE DEDICATED BONDED DEBT

MUSTFA Related:

Tax Dedicated Bonds:

1996 - Revenue Bonds - Series 1 216.6 193.6 1997 2010 5.67

TOTAL REVENUE DEDICATED BONDED DEBT - MUSTFA RELATED

216.6 193.6

Transportation Related:

Tax Dedicated Bonds:

Michigan Comprehensive Transportation:

Series 1985 (Series B Refunding)	57.8	3.9	1985	2000	8.53
Series 1988 (Series I Refunding)	73.2	4.3	1991	2011	7.30
Series 1992 (Series A and Series B Refunding)	165.0	153.2	1996	2022	5.96
Series 1996 (Series A Refunding)	22.7	22.6	1997	2014	5.42
Series 1998 (Series A Refunding)	38.6	38.6	1999	2011	4.95

State Trunkline Fund Bonds:

Series 1989 (Series A)	135.8	24.0	1994	2019	6.97
Series 1992 (Series A and Series B Refunding)	353.2	181.3	1999	2021	6.16
Series 1994 (Series A and Series B Refunding)	241.0	75.6	1995	2025	5.53
Series 1996 (Series A)	54.5	12.6	1997	2026	5.71
Series 1998 (Series A)	377.9	377.9	1999	2027	5.13

TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED

1,519.7 894.0

State Building Authority:

1990 Revenue Bonds – Series II	218.9	157.0	1991	2009	6.39
1991 Revenue Bonds – Refunding Series I	296.0	237.2	1992	2021	6.26
1991 Revenue Bonds – Series II	197.8	158.5	1992	2021	6.26
1992 Revenue Bonds – Series I	208.6	169.6	1995	2010	5.39
1992 Revenue Bonds – Series IIA	37.7	36.8	1994	2012	5.99
1993 Revenue Bonds – Refunding Series I	491.5	382.0	1994	2016	4.58
1994 Series I Bonds	39.8	33.3	1995	2012	5.07
1994 Series II Bonds	29.1	25.7	1996	2011	4.62
1995 Series A Bonds	17.2	6.9	1996	2002	4.41
1996 Series I Bonds	109.9	99.4	1997	2010	5.04
1997 Series I Bonds	144.8	138.8	1997	2010	5.179
1997 Series A Bonds	34.3	33.3	1997	2006	4.760
1997 Series B Bonds	42.9	35.8	1997	2001	4.510
1997 Series II Bonds	371.9	373.0	1997	2014	5.534
1998 Series I Bonds	109.5	109.5	1998	2014	4.844

TOTAL STATE BUILDING AUTHORITY BONDED DEBT (3)

2,349.9 1,996.8

TOTAL REVENUE DEDICATED BONDED DEBT

4,086.2 3,084.4

TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED BONDED DEBT

\$ 5,233.9 \$ 3,985.6

- (1) General obligation bonds for recreation and environmental protection purposes totalling up to \$800.0 million were authorized by P.A. 329 of 1988. Through September 30, 1998, \$677.7 million of such bonds had been issued, leaving remaining authorization of \$122.3 million.
- (2) The \$13.9 million Series 1992A and the \$16.7 million Series 1993, Recreation and Environmental Protection General Obligation Bonds were used to provide a contribution of capital to the Michigan Municipal Bond Authority (a discretely

presented component unit). An outside trustee for the authority is holding the bonds as an investment of the authority; no immediate cash proceeds were provided. The trustee receives the debt service payments on the bonds, which are negotiable instruments held to subsidize water pollution control financing provided by the authority.

- (3) The State Building Authority issued an additional \$330.4 million of revenue bonds subsequent to September 30, 1998.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the preceding table and section C at their accreted year-end book value. The tables which follow summarize capital appreciation bonds (in millions):

	ACCRETED BOOK VALUE	ULTIMATE MATURITY VALUE	MATURITY DATES
State Building Authority:			
1994 Series II	\$ 43.3	\$ 29.8	2000-2010
General Obligation Bonds:			
Series 1989	31.1	47.3	2011
HOST - Series I	.2	.3	2005
Series 1992	28.2	42.3	2012
College Savings Bonds - Series 1992 Mini-bonds	.7	1.8	2012
Series 1995	23.6	34.5	2001-2010
Revenue Dedicated - Transportation Related:			
Michigan Comprehensive Transportation - Series 1985	3.9	4.2	1995-2000
State Trunkline - Series 1989 A	20.3	35.7	2004-2009
State Trunkline - Series 1992 A and B	50.7	97.7	2005-2012

Advance Refundings and Defeasances

The State has defeased certain bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and

the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

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

	AMOUNTS OUTSTANDING
Recreation and Environmental Protection:	
Series 1989	\$ 23.2
Series 1992	43.8
Total	<u>\$ 67.0</u>
Michigan Comprehensive Transportation:	
Series 1985 (CAB)	6.1
Series 1992 A	5.1
Total	<u>\$ 11.2</u>
State Trunkline Fund Bonds:	
Series 1989 A (partial)	\$ 103.1
Series 1992 A (partial)	131.2
Series 1992 B (partial)	56.8
Series 1994 A (partial)	112.8
Series 1996 A (partial)	41.2
Total	<u>\$ 445.1</u>

	AMOUNTS OUTSTANDING
State Building Authority:	
1982 Series III	\$ 19.3
1986 Series I	125.6
1986 Series II	10.8
1987 Series I	6.7
1987 Series II	23.8
1988 Series I	30.5
1988 Series II	31.2
1989 Series I	109.6
1990 Series I	90.8
Total	<u>\$ 448.3</u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

Debt Service Requirements

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

FISCAL YEARS ENDING	GENERAL OBLIGATION		MUSTFA AND TRANSPORTATION RELATED		STATE BUILDING AUTHORITY		TOTAL PRINCIPAL AND INTEREST
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	INTEREST
1999	\$ 36.2	\$ 46.2	\$ 53.0	\$ 50.5	\$ 131.4	\$ 104.0	\$ 421.3
2000	41.2	44.2	41.0	51.3	132.0	98.9	408.6
2001	41.8	42.5	43.5	49.2	135.4	92.0	404.4
2002	43.5	40.7	45.9	46.9	131.0	85.3	393.3
2003	45.7	38.9	48.2	44.4	134.5	78.5	390.2
2004-2028	735.1	276.0	918.7	421.6	1,357.8	442.9	4,152.1
Total	\$ 943.5	\$ 488.5	\$ 1,150.3	\$ 663.9	\$ 2,022.1	\$ 901.6	\$ 6,169.9

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

bonds. State Building Authority debt service fund unreserved fund balances totalled \$245.0 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

B. Other General Long-Term Obligations

Capital Leases

Capitalized lease liabilities are described in more detail in Note #13. The leases are attributable to operations of the General Fund and two special revenue funds (the State Trunkline Fund and Michigan Employment Security Act – Administration Fund).

Compensated Absences

This liability is described in Note #12.

Claims and Judgments

In general, expenditures and fund liabilities are not recorded in governmental funds for claims and judgments until they are considered "due and payable" at September 30 and the related losses are certain. Liabilities for material claims and judgment losses are recorded in the General Long-Term Obligations Account Group when they are considered probable.

The liability recorded for claims and judgments includes projected amounts payable for workers' compensation claims by State employees and an allowance for litigation losses. The gross amount of workers' compensation liability, \$283.7 million at September 30, 1998, has been recorded at its discounted present value of \$183.8 million, using a discount rate of 8%. The present value of the current portion of this liability is \$38.5 million. The Accident Fund Company billed State agencies for actual workers' compensation claims paid plus administrative fees, totalling \$43.5 million in fiscal year 1997-98.

The allowance for estimated liability for litigation losses, \$810.4 million at September 30, 1998, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, where it is considered more than a reasonable possibility that a loss may be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these

claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The reported estimated liability for litigation losses includes the Donald Durant, et al v State of Michigan, et al consolidated cases, which totalled \$579.3 million, at September 30, 1998. This amount will, over time, be paid to each "non-Durant" school district for its underfunded state mandated program costs if certain requirements are met. See Note #28 for additional disclosure regarding the Durant case and other contingencies. Fund expenditures for workers' compensation and settled litigation with long-term repayment provisions are recognized on the "due and payable" basis. Other losses are recognized as fund liabilities in the year of settlement, except that cases settled shortly after year-end are recognized as fund liabilities using a sliding materiality scale that increases from recognizing all losses in early October to recording only settlements in excess of \$1.5 million after November 30 (see Note #28).

MUSTFA Liabilities

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, and the debt and debt service charges associated with the financial borrowing mechanisms utilized to expedite reimbursement to eligible owners/operators.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

C. Changes in General Long-Term Obligations

Changes in general long-term obligations for the year ended September 30 are summarized as follows (in millions):

	GENERAL OBLIGATION DEBT	REVENUE DEDICATED DEBT- MUSTFA AND TRANSPORTATION RELATED	REVENUE DEDICATED DEBT - STATE BUILDING AUTHORITY	TOTAL BONDED DEBT
Bonded Debt:				
Balance - Beginning	\$ 677.3	\$ 1,117.8	\$ 1,616.7	\$ 3,411.8
New bond issues	250.0	416.5	481.4	1,147.9
Accretion on capital appreciation bonds	5.0	3.2	2.2	10.4
Bond principal retirements	(31.1)	(449.9)	(103.5)	(584.5)
	<u>\$ 901.2</u>	<u>\$ 1,087.6</u>	<u>\$ 1,996.8</u>	<u>\$ 3,985.6</u>

	CAPITAL LEASE OBLIGATIONS	COMPENSATED ABSENCES LIABILITIES	CLAIMS AND JUDGMENTS	MUSTFA CLAIMS	NET PENSION OBLIGATIONS	TOTAL OTHER OBLIGATIONS
Other Obligations:						
Balance - Beginning	\$ 234.7	\$ 429.1	\$ 1,095.7	\$ 16.5	\$ 13.4	\$ 1,789.4
Adjustments to beginning balance	8.7	-	-	-	-	8.7
Change in estimated liabilities	-	(.5)	(101.5)	(8.0)	2.1	(107.9)
Capital lease additions	29.1	-	-	-	-	29.1
Capital lease payments and deletions	(48.0)	-	-	-	-	(48.0)
Balance - Ending	<u>\$ 224.5</u>	<u>\$ 428.7</u>	<u>\$ 994.2</u>	<u>\$ 8.5</u>	<u>\$ 15.5</u>	<u>\$ 1,671.3</u>

D. Unrecorded Limited Obligation Debt

The Michigan Family Farm Development Authority (MFFDA) formerly issued limited obligation bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only

from the repayments of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided. The MFFDA issued these types of bonds to foster the development of new farm operations. As of September 30, 1998, the MFFDA had bonds outstanding of \$.7 million.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 15 – BONDS AND NOTES PAYABLE - DISCRETELY PRESENTED COMPONENT UNITS

A. Bonds and Notes Payable

Bonds Payable

All of the bonds payable of the discretely presented component units are legal obligations of the component units and they are not general obligations of the State. The following table summarizes debt service requirements of the discretely presented component units (in millions):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998-1999	\$ 211.5	\$ 258.0	\$ 469.5
1999-2000	204.8	253.6	458.4
2000-2001	198.2	246.3	444.5
2001-2002	233.2	237.8	471.0
2002-2003	195.6	227.9	423.5
Total five years	<u>1,043.2</u>	<u>1,223.6</u>	<u>2,266.8</u>
2003-2033	<u>3,818.4</u>	<u>2,608.1</u>	<u>6,426.5</u>
		<u>\$ 3,831.6</u>	<u>\$ 8,693.3</u>
Less:			
Unamortized discount	<u>(7.9)</u>		
Total principal	<u>\$ 4,853.7</u>		

Included in the table above is \$226.2 million of demand bonds comprised of the Michigan Higher Education Student Loan Authority, \$96.4 million, and the Michigan State Housing Development Authority, \$129.8 million. Defeased bonds outstanding of the Mackinac Island State Park Commission, Michigan State Housing Development Authority, Michigan Municipal Bond Authority (MMBA), and eight of the State universities are not reflected in the table above.

Subsequent to September 30, 1998, MMBA issued school loan revenue bonds totalling \$304.9 million and local government loan program revenue bonds totalling \$10.9 million. Disclosures regarding these bonds and transactions are available in the separately issued reports of the various organizations.

Notes Payable

The Michigan Municipal Bond Authority has short-term notes outstanding of \$374.7 million as of September 30, 1998.

B. Unrecorded Limited Obligation Debt

Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The State has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private

nonprofit institutions of higher education for capital improvements. As of September 30, the MHEFA had bonds outstanding of \$217.7 million. Of the above amount, \$18.1 million of bonds have been defeased in substance, leaving a remaining undefeased balance of \$199.6 million.

The Michigan State Hospital Finance Authority (MSHFA) has issued \$4.5 billion of no commitment bonds as of September 30, 1998. Of the above amount, \$912.2 million have been defeased in substance. Economic gains and accounting gains and losses upon in substance defeasance inure to the benefit of the facility for which the bonds were issued and accordingly are not reflected in the Authority's financial statements. Subsequent to September 30, 1998, the Authority issued similar limited obligation bonds totalling \$10.0 million.

The Michigan Strategic Fund (MSF) issues industrial development revenue bonds (\$4.3 billion for the period January 1, 1979 through September 30, 1998) which are not recorded as liabilities. Total taxable bonds issued by MSF for the period October 1, 1997 through September 30, 1998 was \$18.0 million, which are not recorded as liabilities. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

The Michigan State Housing Development Authority (MSHDA) has been authorized to issue up to \$800.0 million of limited obligation bonds to finance multi-family housing projects. At June 30, limited obligation bonds had been issued totalling \$316.4 million, of which seven issues totalling \$62.6 million had been retired.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 16 – INCOME TAX REFUNDS AND TAX EXPENDITURES

Income Tax Credits

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

Expenditures are reported for those credits which can be received even if they exceed the individual's tax liability. For these refundable

credits, the substance of the transaction is that the State is making a grant payment using the income tax system as a filing and payment mechanism. The amount of credit received is not a part of the determination of tax liability. The State's property tax, home heating, and senior citizens' prescription drugs credits are the primary credits that fall into this category. Expenditures for these credits are recognized in the year the tax returns are filed and the credits are claimed by recipients. The following table shows the amounts of the various credits reported as General Fund "tax expenditures" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances (in millions).

Property tax credits:	
General homestead	\$ 213.7
Senior citizens	216.8
Farmland preservation	18.2
Other property tax credits	<u>10.5</u>
Subtotal - property tax credits	459.2
Home heating (excluding federal share)	1.5
Senior citizens' prescription drugs	<u>16.2</u>
Total tax expenditures	<u>\$ 477.0</u>

Income Tax Refunds Payable

The \$479.1 million reported as a General Fund liability on the "Income Tax Refunds Payable" line on the Combined Balance Sheet includes: projected refund estimates for overwithholding and tax

credits reported as revenue reductions; actual refunds made in October and November; and, accruals for known income tax litigation losses.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 17 – LOTTERY PRIZE AWARDS PAYABLE

The State Lottery Fund makes long-term prize awards for certain of its games, most notably the lotto games. Liabilities related to these deferred prize awards are recorded at their present value using discount rates ranging from 5.5% to 8.5%. The liquidation of these

liabilities is provided for by investment in U.S. Treasury deep discount bonds and in the State's common cash pool.

The future payments for prize awards payable are summarized as follows (in millions):

Twelve months ending September 30:	
1998	\$ 170.8
1999	132.6
2000	132.6
2001	132.2
2002	131.9
2003 through 2007	564.0
2008 through 2012	292.9
Later years	104.1
Total	1,661.1
Less unamortized discount	(570.2)
Total at present value	\$ 1,090.9

Public Act 239 of 1972 required that, as nearly as practicable, 45% of gross ticket revenue shall be allocated for prize awards. Effective May 22, 1995, P.A. 53 of 1995, requires as nearly as practicable until January 1, 2000, that not less than 45% of gross ticket revenue shall be allocated for prize awards. On or after January 1, 2000, 45% of gross ticket revenue shall be allocated for prize awards.

Public Act 95 of 1996 allows the State Lottery to participate in joint enterprises (such as multistate lotteries) with other sovereignties. Prize awards from joint enterprises shall be the percentage of total annual revenue accrued from that game as prescribed by the joint enterprise participation agreement. More detailed information on the State Lottery Fund is available in the fund's separately issued audited financial statements, which are prepared semiannually.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 18 – OTHER LONG-TERM LIABILITIES

A. Primary Government

Arbitrage Rebates

The other long-term liabilities reflected in the special revenue and debt service fund columns of the Combined Balance Sheet represent accrued federal arbitrage rebates on revenue related to general long-term obligations account group bond issues.

Agency Fund Liabilities

Other long-term liabilities amounting to \$2.4 billion are reported in the trust and agency fund column on the Combined Balance Sheet. These amounts are primarily related to the State's section 457 deferred compensation plan (see Note #19), insurance and financial institution deposits, and the State Treasurer's Escrow and Paying Agent Fund.

The amount reported in the agency funds does not include amounts related to the U.S. branch of Confederation Life Insurance Company, which is in financial liquidation. The Insurance Commissioner serves as the liquidator of certain insurance companies undergoing liquidation. In this role, the Insurance Commissioner is, in effect, an officer of the courts and is therefore accountable to the courts. On August 12, 1994, the Ingham County Circuit Court appointed the Insurance Commissioner as liquidator of the U.S. branch of Confederation Life Insurance Company, a Canadian Insurance Corporation. As of September 30, 1998, reported assets totaling \$2.3 billion remained under the liquidator's management. All costs of liquidation are paid from the company, therefore, the State will have neither a financial benefit nor burden and, consequently, no amounts have been recognized in the financial statements.

B. Discretely Presented Component Units

Michigan Education Trust (MET)

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

recorded on the balance sheet for the actuarial present value of future tuition benefit obligations.

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

The actuarial report on the status of MET Plans B and C, as of September 30, 1998, shows the actuarial present value of future tuition obligations to be \$617.1 million, as compared to the actuarially determined market value of assets available of \$755.7 million. The actuarial assumptions used include: a projected tuition increase rate of 6.86% for the years through 2004 and 7.30% for subsequent years; and an average investment yield of 7.60% on investments at September 30, 1998 and 6.78% on reinvestment of income.

The actuarial report on the status of MET Plan D, as of September 30, 1998, shows the actuarial present value of future tuition obligations to be \$31.0 million, as compared to the actuarially determined market value of assets available of \$36.7 million. The actuarial assumptions used include: a projected tuition increase rate of 6.86% for the years through 2004 and 7.30% for subsequent years; and an average investment yield of 7.80% on zero coupon treasury bonds, an average investment yield of 10.0% on equity mutual funds as of September 30, 1998 and 6.78% on reinvestment of income.

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan, and, thus, the investment income realized by MET is not currently subject to federal income tax. On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income. Distributions made in excess of contributions (whether to the refund designee, beneficiary, or to a college on behalf of the beneficiary) are taxable income to the beneficiary or the refund designee. The Internal Revenue Service (IRS) is expected to release regulations in 1999 which will clarify the 1996 federal legislation for qualified state tuition programs. In May 1997, MET submitted a request for ruling to the IRS for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET is in compliance with the Act.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 19 – DEFERRED COMPENSATION PLANS

The State has established two deferred compensation plans for its employees (excluding university employees). Both were administered by the Department of Civil Service until October 1, 1997, when the State Treasurer assumed responsibility per P.A. 96 of 1996. On July 1, 1998, the day-to-day administration of both plans was contracted out to an investment firm. The State makes no contribution to the section 457 plan but makes matching contributions to the section 401k plan as part of certain employees' compensation packages. These plans and the accounting policies applied to each are described below.

Section 457 Plan

Created in accordance with Internal Revenue Code Section 457, this plan is available to all State employees to permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is accounted for in the State Employees' Deferred Compensation Fund I (457), an agency fund. Total assets and total liabilities of the fund as of September 30 were \$1.9 billion.

Employee contributions are recognized as increases in fund assets and liabilities. Benefits are recognized as decreases in fund assets and liabilities when paid. Several investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting investment tiers. Employees may, at periodic intervals, transfer funds among the investment tiers.

Investments are stated at fair value. The net of realized and unrealized gains and losses are shown as increases in fund assets and liabilities. Investment earnings, net of administrative charges, are credited to the participants' accounts based upon their balances in the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property of the State (without being restricted to the provision of

benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the value of the deferred account for each participant. Subsequent to September 30, 1998, the plan was amended to comply with Section 457(g) of the Internal Revenue Code. The assets of the Fund are now held in trust for the exclusive benefit of the participants.

It is the opinion of the State's legal counsel that the State has no liability for losses under the plan, unless it fails to discharge its duty to exercise due care in accounting for and administering the plan.

Section 401k Plan

The State also offers a plan created in accordance with Internal Revenue Code Section 401k. This deferred compensation plan is accounted for in the State Employees' Deferred Compensation Fund II (401k), an expendable trust fund. As of September 30, the fund balance of the fund was \$800.2 million.

The deferred compensation is not available to employees until termination, retirement, death, financial hardship, or attainment of 59 ½ years of age. The plan does, however, include loan provisions. Unlike the section 457 plan, this plan's assets are not subject to the claims of the State's general creditors.

Several investment tiers were developed and made available to participants on July 1, 1997. Employee participants choose the investment tiers for their contributions and accumulated earnings. Employees may, at periodic intervals, transfer funds among the investment tiers.

The fund balance of the fund represents net assets available for plan benefits. Employee contributions are recognized as revenue; benefits are recognized as expenditures when paid. Investment earnings, net of administrative charges, are credited to the participants based upon their balances in the plan. Loans to participants are recorded as assets.

Investments are stated at fair value. The net of realized and unrealized gains and losses are shown as miscellaneous revenue.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 20 – INTERFUND RECEIVABLES AND PAYABLES

A. Primary Government

In the following table, the most significant interfund receivable and payable balances are listed by individual fund. Other funds' balances are shown in total for each fund type. Interfund receivables and payables are not eliminated and are presented in the same fund when funds are combined. On the balance sheet, the current portions of these balances are presented as "Amounts due from other funds" and "Amounts due to other funds" and noncurrent items are classified as "advances." The balances of interfund receivables and payables as of September 30 were (in millions):

	INTERFUND RECEIVABLES		INTERFUND PAYABLES	
	Current	Noncurrent	Current	Noncurrent
GOVERNMENTAL FUND TYPES				
General Fund	\$ 399.8	\$ 22.3	\$ 26.3	\$ -
Special Revenue Funds:				
State Trunkline Fund	47.6	35.1	6.3	35.1
Michigan Transportation Fund	-	-	54.5	-
Comprehensive Transportation Fund	11.9	-	-	-
Michigan Underground Storage Tank Financial Assurance Finance Authority	39.5	-	-	-
Michigan Underground Storage Tank Financial Assurance Fund	1.1	-	39.5	-
State Casino Gaming Fund	-	-	4.4	-
School Aid Fund	-	-	363.1	-
Other Special Revenue Funds	-	-	1.2	-
Total Special Revenue Funds	<u>100.1</u>	<u>35.1</u>	<u>469.0</u>	<u>35.1</u>
Debt Service Funds:				
Michigan Underground Storage Tank Financial Assurance Finance Authority	-	-	1.1	-
Other Debt Service Funds	-	-	.2	-
Total Debt Service Funds	<u>-</u>	<u>-</u>	<u>1.3</u>	<u>-</u>
Capital Projects Funds:				
State Building Authority Advance Financing Fund	63.1	-	36.8	-
State Building Authority	6.3	-	63.1	-
Total Capital Projects Funds	<u>69.4</u>	<u>-</u>	<u>99.8</u>	<u>-</u>
PROPRIETARY FUND TYPES				
Enterprise Funds	-	-	.1	-
Internal Service Funds:				
Correctional Industries Revolving Fund	-	-	.1	10.3
Motor Transport Fund	-	-	6.2	-
Information Technology Revolving Fund	-	-	4.4	21.7
State Sponsored Group Insurance Fund	29.0	22.1	-	-
Other Internal Service Funds	-	-	.4	-
Total Internal Service Funds	<u>29.0</u>	<u>22.1</u>	<u>11.1</u>	<u>32.0</u>
FIDUCIARY FUND TYPES				
Trust and Agency Funds:				
State Employees' Deferred Compensation Fund II (401k)	-	-	3.4	-
State Employees' Defined Contribution Retirement Fund	3.4	-	-	-
State Employees' Retirement Fund	9.3	-	-	-
Transportation Related Trust Funds	-	-	7.4	-
Miscellaneous Trust Accounts Fund	7.4	-	-	12.4
Other Trust and Agency Funds	2.6	-	2.5	-
Total Trust and Agency Funds	<u>22.7</u>	<u>-</u>	<u>13.3</u>	<u>12.4</u>
Total Interfund Receivables and Payables - All Funds	<u>\$ 621.0</u>	<u>\$ 79.6</u>	<u>\$ 621.0</u>	<u>\$ 79.6</u>

B. Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, as well as operating transfers in and out, do not agree because the Michigan State Housing Development Authority and the ten State universities have a June 30 fiscal year-end.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 21 – INTERFUND COMMITMENTS

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, 1998, the Authority has repaid a total of \$8.8 million of the advance from the Michigan Transportation Fund, leaving a balance of \$54.3 million. No repayments have been made on the advance from the State Trunkline Fund.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 22 – EQUITY TRANSFERS AND CHANGES IN CONTRIBUTED CAPITAL

Equity Transfers

Equity transfers totalling \$17.3 million were made from the General Fund 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 totalling \$33.2 million were made from the General Fund to the Bottle Deposits Fund (a special revenue fund) to fund the State Site Cleanup Program and for capitalization of the Bottle Deposits Fund.

An equity transfer of \$1.4 million was made from the General Fund to the Department of Natural Resources Magazine Fund (an enterprise fund) to eliminate a fund deficit and to close the fund.

An equity transfer of \$.5 million was made from the General Fund to the State Casino Gaming Fund (a special revenue fund) to fund casino gaming regulations.

Equity transfers totalling \$1.0 million were made from six 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.

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	Total
Beginning balance	\$ 1.4	\$ 8.4	\$ 9.8	\$ 1.5	\$ 524.1	\$ 525.6
Contributed capital additions	.1	-	.1	-	-	-
Equity transfers from primary government	-	-	-	-	17.3	17.3
Federal grants	-	-	-	-	92.6	92.6
Ending balance	<u>\$ 1.5</u>	<u>\$ 8.4</u>	<u>\$ 9.9</u>	<u>\$ 1.5</u>	<u>\$ 634.1</u>	<u>\$ 635.6</u>

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.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 23 – RETAINED EARNINGS

Designations – Primary Government

Retained earnings of \$41.6 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.

Retained earnings of \$169.6 million in the State Lottery Fund, an enterprise fund, have been designated for unrealized gain on investments.

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	\$ 8.6
Michigan Higher Education Assistance Authority	27.0
Mackinac Island State Park Commission	2.0
Michigan Strategic Fund	92.7
Michigan State Housing Development Authority	<u>225.4</u>
Total	<u>\$ 355.7</u>

As a result of federal legislation enacted in 1993, the United States Department of Education (USDOE) has the legal authority to require the Michigan Higher Education Assistance Authority (MHEAA) to remit all of its retained earnings to the USDOE. As of September 30, 1998, MHEAA has reclassified \$32.1 million Reserved Fund Equity to Amounts Payable to Federal Government to meet this requirement.

Fund Deficits

All proprietary type funds and discretely presented component units have positive retained earnings balances as of September 30, 1998.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 24 – FUND BALANCES

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	\$ 122.8	\$ 62.6	\$ -	\$ -	\$ 185.4
Restricted revenues	462.9	280.4	-	-	743.3
Multi-year projects (capital outlay and work projects)	370.5	381.2	-	-	751.7
Construction and debt service	-	-	15.6	-	15.6
Revolving loan programs	.8	9.0	-	-	9.8
Funds held as permanent investments	-	362.0	-	-	362.0
Noncurrent assets	253.2	30.2	-	-	283.4
Pension and postemployment health-care benefits	-	-	-	42,711.1	42,711.1
Total Reserved Fund Balances	\$ 1,210.2	\$ 1,125.4	\$ 15.6	\$ 42,711.1	\$ 45,062.3

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 (\$180.9 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 \$370.5 million of multi-year projects in the General Fund includes \$142.4 million of capital outlay and \$228.1 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 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.

Reservations - Component Units

The line entitled "Reserved fund balance" on the Combined Balance Sheet consists entirely of reserves for restricted funds of State universities (\$197.5 million).

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 \$108.8 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 \$5.0 million. 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 \$9.0 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 when the first temporary casino is 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 \$43.1 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 \$117.0 million. The deficit was primarily caused by the issuance of commercial paper.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 25 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

During the fiscal year, the State operated three 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 \$8.8 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.

The Department of Natural Resources Magazine Fund accounts for the production and sale of various publications. As explained in Note 22, this fund was closed to the General Fund at year-end.

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

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	TOTAL
Operating Revenues	\$ 499.9	\$ 1,694.1	\$ 2,194.0
Operating Expenses (Including Depreciation)	407.1	1,079.0	1,486.1
Depreciation Expense	.1	.6	.7
Operating Income (Loss)	92.8	615.2	707.9
Nonoperating Revenues (Expenses)	11.4	94.3	105.8
Operating Transfers To Other Funds:			
Statutory Net Income Transfer	(96.7)	(624.1)	(720.8)
Administrative General Fund Costs	(7.5)	-	(7.5)
Total Operating Transfers To Other Funds	(104.2)	(624.1)	(728.3)
Net Income (Loss)	-	85.4	85.4
Unrealized Gain on Investments	-	85.4	85.4
Net Working Capital	12.4	25.7	38.1
Property, Plant, and Equipment	.8	1.2	2.0
Total Assets	61.4	1,852.7	1,914.2
Long-Term Liabilities	-	926.5	926.5
Total Equity (Deficit)	13.2	169.6	182.8

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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. No table is presented for

the component unit column of the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances because this column predominantly reflects the activities of the Mackinac Bridge Authority.

BALANCE SHEETS (in millions)

	Michigan Education Trust	Michigan Higher Education Assistance 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	.2	.6	-	.7	1.3
Other current assets	59.6	46.6	515.0	714.1	80.6
Noncurrent Assets:					
Mortgages and loans receivable	-	1.0	1,888.9	-	8.1
Investments	745.4	31.0	430.8	536.3	56.7
Property, plant, and equipment	-	-	-	-	185.2
Other noncurrent assets	-	-	5.0	1,255.2	-
Total Assets	\$ 805.2	\$ 79.2	\$ 2,839.7	\$ 2,506.4	\$ 331.9
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Current Liabilities:					
Amounts due to primary government	\$.3	\$ -	\$ 1.2	\$.5	\$.2
Other current liabilities	61.6	10.3	113.2	500.5	21.9
Long-Term Liabilities:					
Bonds and notes payable	-	-	2,016.7	1,224.5	92.2
Other long-term liabilities	598.9	40.4	387.2	74.9	2.4
Total Liabilities	660.8	50.7	2,518.3	1,800.4	116.7
Fund Equity and Other Credits:					
Investment in general fixed assets	-	-	-	-	119.0
Contributed capital	-	1.5	-	634.1	-
Retained earnings	144.4	27.0	321.4	71.8	-
Fund balances	-	-	-	-	96.2
Total Fund Equity and Other Credits	144.4	28.5	321.4	705.9	215.2
Total Liabilities, Fund Equity, and Other Credits	\$ 805.2	\$ 79.2	\$ 2,839.7	\$ 2,506.4	\$ 331.9

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

	<u>Eastern Michigan University</u>	<u>Western Michigan University</u>	<u>Other Component Units</u>	<u>Total</u>
ASSETS				
Current Assets:				
Amounts due from component units	-	\$ -	\$ 0.3	\$ 0.3
Amounts due from primary government	0.8	1.2	5.7	10.6
Other current assets	60.4	98.0	700.4	2,274.6
Noncurrent Assets:				
Mortgages and loans receivable	7.6	5.9	566.5	2,477.9
Investments	26.5	8.3	411.1	2,246.1
Property, plant, and equipment	218.6	389.5	829.4	1,622.7
Other noncurrent assets	-	9.9	23.3	1,293.4
 Total Assets	 <u>\$ 314.0</u>	 <u>\$ 512.9</u>	 <u>\$ 2,536.7</u>	 <u>\$ 9,926.0</u>
 LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Current Liabilities:				
Amounts due to primary government	\$ 0.6	\$ -	\$ 2.7	\$ 5.6
Other current liabilities	32.6	51.8	153.8	945.7
Long-Term Liabilities:				
Bonds and notes payable	86.3	131.4	1,078.1	4,629.2
Other long-term liabilities	7.5	14.0	77.6	1,202.9
 Total Liabilities	 <u>127.0</u>	 <u>197.2</u>	 <u>1,312.3</u>	 <u>6,783.4</u>
 Fund Equity and Other Credits:				
Investment in general fixed assets	155.4	261.0	622.1	1,157.5
Contributed capital	-	-	-	635.6
Retained earnings	-	-	270.3	834.9
Fund balances	31.5	54.6	331.9	514.2
 Total Fund Equity and Other Credits	 <u>186.9</u>	 <u>315.6</u>	 <u>1,224.3</u>	 <u>3,142.2</u>
 Total Liabilities, Fund Equity, and Other Credits	 <u>\$ 314.0</u>	 <u>\$ 512.9</u>	 <u>\$ 2,536.7</u>	 <u>\$ 9,926.0</u>

Note 26 continued on next page

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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

	Michigan Education Trust	Michigan Higher Education Assistance Authority	Michigan State Housing Development Authority	Michigan Municipal Bond Authority	Other Component Units	Total
OPERATING REVENUES						
Operating revenues	\$ -	\$ 42.7	\$ -	\$ -	\$ 10.8	\$ 53.5
Interest income	37.4	-	153.9	111.9	45.0	348.2
Investment revenue (net)	33.4	-	35.0	-	22.3	90.7
Federal revenues	-	61.4	6.2	-	5.8	73.4
Other miscellaneous	4.3	-	6.6	3.9	2.8	17.6
	<u>75.1</u>	<u>104.1</u>	<u>201.7</u>	<u>115.8</u>	<u>86.7</u>	<u>583.4</u>
OPERATING EXPENSES						
Depreciation and amortization expense	-	-	-	-	.3	.3
Other operating expenses	28.7	106.3	165.3	96.6	81.1	478.0
	<u>28.7</u>	<u>106.3</u>	<u>165.3</u>	<u>96.6</u>	<u>81.4</u>	<u>478.3</u>
Operating Income (Loss)	<u>46.4</u>	<u>(2.2)</u>	<u>36.4</u>	<u>19.2</u>	<u>5.3</u>	<u>105.1</u>
NONOPERATING REVENUES (EXPENSES)						
Federal grant revenue	-	(32.1)	72.8	-	2.0	42.7
Other	-	4.3	(78.7)	-	18.9	(55.5)
	<u>-</u>	<u>(27.8)</u>	<u>(5.9)</u>	<u>-</u>	<u>20.9</u>	<u>(12.8)</u>
OPERATING TRANSFERS						
Operating transfers from primary government	-	-	-	-	2.2	2.2
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>
Net Income (Loss)	46.4	(30.0)	30.5	19.2	28.4	94.5
Total Fund Equity - Beginning of fiscal year - restated	98.0	58.5	290.8	576.7	241.9	1,265.9
Current Year Capital Contributions	-	-	-	110.0	-	110.0
Total Fund Equity - End of fiscal year	<u>\$ 144.4</u>	<u>\$ 28.5</u>	<u>\$ 321.4</u>	<u>\$ 705.8</u>	<u>\$ 270.3</u>	<u>\$ 1,470.4</u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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	\$ 245.9	\$ 178.8	\$ 378.2	\$ 696.3	\$ 1,499.2
Total expenditures and other deductions	297.9	249.1	473.8	930.2	1,951.0
Operating transfers from primary government	<u>74.2</u>	<u>88.3</u>	<u>135.2</u>	<u>278.4</u>	<u>576.1</u>
Net increase (decrease) for the year	22.2	18.0	39.6	44.5	124.3
Total Fund Equity and Other Credits - Beginning of fiscal year	<u>193.1</u>	<u>168.9</u>	<u>276.1</u>	<u>878.3</u>	<u>1,516.4</u>
Total Fund Equity and Other Credits - End of fiscal year	<u><u>\$ 215.3</u></u>	<u><u>\$ 186.9</u></u>	<u><u>\$ 315.6</u></u>	<u><u>\$ 922.8</u></u>	<u><u>\$ 1,640.7</u></u>

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	\$ 208.3	\$ 131.7	\$ 272.7	\$ 522.8	\$ 1,135.5
Expenditures	257.2	193.1	350.8	747.1	1,548.2
Mandatory Transfers (In) Out	7.2	7.3	9.5	13.5	37.5
Operating transfers from Primary Government	(71.7)	(76.7)	(107.9)	(266.5)	(522.8)
Other Transfers (In) Out	11.3	6.4	16.2	21.3	55.2
Total Expenditures and Transfers	<u>204.0</u>	<u>130.1</u>	<u>268.6</u>	<u>515.4</u>	<u>1,118.1</u>
Revenues over Expenditures and Transfers	4.3	1.6	4.1	7.4	17.4
Fund Balances - Beginning of fiscal year - restated	21.4	19.4	50.1	88.9	179.8
Change in restricted revenue held for future expenditures	.2	.8	(1.1)	1.3	1.2
Fund Balances - End of fiscal year	<u><u>\$ 25.9</u></u>	<u><u>\$ 21.8</u></u>	<u><u>\$ 53.1</u></u>	<u><u>\$ 97.7</u></u>	<u><u>\$ 198.4</u></u>

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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 six 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 1997-98 fiscal year, expenditures for payments to former State employees (not including university employees) totalled \$6.4 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 \$5.6 million. This includes a long-term portion which is recorded at \$4.0 million.

Changes in the Risk Management Fund's claims liability for automobile liability for the fiscal years ending September 30, 1998 and 1997 are as follows (in millions):

	1998	1997
Balance - beginning	\$ 4.8	\$ 9.8
Current year claims and changes in estimates	2.0	(3.2)
Claim payments	(1.2)	(1.8)
Balance - ending	\$ 5.6	\$ 4.8

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 \$166.4 million. This includes a long-term portion which is recorded at a discounted present value of \$85.2 million using a discount rate of 10.5% (first 15 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, 1997, and 1998 were discounted using 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 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 \$48.1 million at September 30, 1998. Retained earnings totalled \$41.6 million at September 30, 1998. Therefore, if excessive claims were realized, the fund would not have sufficient retained earnings to satisfy these losses.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
 FISCAL YEAR ENDED SEPTEMBER 30, 1998

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, 1998 and 1997 are as follows (in millions):

	1998	1997
Balance - beginning	\$ 159.8	\$ 148.0
Current year claims and changes in estimates	433.6	422.8
Claim payments	(427.0)	(410.9)
Balance - ending	\$ 166.4	\$ 159.8

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 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.

Donald Durant, et al v State of Michigan, et al: In an order dated June 10, 1997, and a decision rendered July 31, 1997, the Michigan Supreme Court decided, in the consolidated cases of Durant v State of Michigan and Schmidt v State of Michigan, that the special education, special education transportation, bilingual education, driver training, and school lunch programs provided by local school districts are state mandated programs within the meaning of Michigan Const., Art. 9, § 29 (part of the so-called Headlee Amendment); and therefore, the State is obligated to fund these programs at

levels established by the Headlee Amendment. In fashioning a remedy in this case of first impression under the Headlee Amendment, the Court concluded that, in future cases, the correct remedy will typically be limited to a declaratory judgment. However, due to the protracted nature of the *Durant* and *Schmidt* litigation, the Court ruled that the 84 plaintiff school districts should be compensated for the full amount of the underfunding without interest for the State mandated programs during the 1991-92, 1992-93, and 1993-94 school years. On November 19, 1997, the Governor signed legislation providing \$212 million to the 84 plaintiff school districts to cover the underfunding for those three years. The \$212 million will be paid to the plaintiff school districts in April 1998, through the State School Aid Act, using funds transferred from the State's Counter-Cyclical Budget and Economic Stabilization Fund to the School Aid Fund. The board of education of each plaintiff school district is to determine the appropriate distribution of the award between taxpayer relief and/or use by the district for other public purposes. The Court has affirmed the award to plaintiffs of their costs including attorney fees. Approximately 400 other school districts have asserted similar claims. In companion legislation signed by the Governor on November 19, 1997, the State will pay each "non-Durant" school district for its underfunded state mandated program costs for those same three years, if the district agreed, by March 2, 1998, to waive any claim against the State of the same nature made by the 84 Durant plaintiffs through September 30, 1997. It is estimated that the aggregate payments to the "non-Durant" school districts will, over time, total \$632 million. Those payments, commencing in fiscal year 1998-1999, will be paid through the State School Aid Act, using funds transferred to the School Aid Fund from the Counter-Cyclical Budget and Economic Stabilization Fund and the General Fund, half in annual payments over 10 years and half in annual payments over 15 years.

Durant v State of Michigan (Durant II): On May 14, 1998, more than 100 Michigan school districts and individuals filed suit in the Michigan Court of Appeals, asserting that the current version of the State School Aid Act, 1997 PA 142, violates the Headlee Amendment, Const. 1963, Art. 9, §§ 25-34, in much the same manner as prior versions of the act were ruled unconstitutional by the Michigan Supreme Court in Durant v State Board of Education, 456 Mich. 175 (1977). In their original complaint, the *Durant II* plaintiffs alleged that the state underfunded the special education, special education transportation, and school lunch programs provided by those school districts during the 1997-1998 and 1998-1999 fiscal years. The *Durant II* plaintiffs sought declaratory, monetary, and injunctive relief, as well as costs and attorney fees. On June 11, 1998, the Michigan Court of Appeals dismissed this suit on technical grounds, without prejudice however, to the timely filing of a new complaint. On September 29, 1998, the Michigan Supreme Court reversed the June 11, 1998 Order of the Michigan Court of Appeals and remanded *Durant II* to the Michigan Court of Appeals. The Michigan Supreme Court directed the Michigan Court of Appeals to resolve expeditiously certain issues raised by the *Durant II* plaintiffs.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

On October 30, 1998, the school districts moved to amend their complaint to challenge the newly-enacted amendments to the State School Aid Act, 1998 PA 339, to add claims for the 1999-2000 fiscal year and to add a new count for mandamus against the state treasurer. On December 2, 1998, the Court of Appeals granted the *Durant II* plaintiffs' motion to amend the complaint and established a briefing schedule. The case remains pending in the Court of Appeals and is expected to proceed in an expedited fashion.

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, 1998, the State estimates that additional disallowances of recognized revenue will not be material to the general purpose financial statements.

For fiscal year 1997-98, estimated mispayments (both State and federal shares) totalled approximately \$37.8 million in the Family Independence program (formerly the Aid to Families with Dependent Children (AFDC) program), \$68.6 million in the Food Stamp program, and \$42.9 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.

Subsequent to year-end, Michigan's Attorney General announced that the State would agree to a legal settlement with four of the nation's largest tobacco companies. Until a final settlement is reached, the amount to be received by the State is not measurable, although it is estimated to be as much as \$8.5 billion. Additional disclosure is provided in Note #29.

Construction Projects

As of September 30, 1998, 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, 1998, the balances remaining in these contracts equaled \$518.8 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, 1998, the principal amount of qualified bonds outstanding was \$8.2 billion. Total debt service requirements on these bonds including interest will approximate \$711.5 million in 1999.

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, 1998. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 1998, is 100% for loans made prior to October 1, 1993, and 98% for loans made on or after October 1, 1993. In the event of future adverse default experience, the MHEAA could be liable for up to 22% of defaulted loans should the default rate exceed 9% in one year. Management does not expect that all guaranteed loans could default in one year. Accordingly, the MHEAA's expected maximum contingent liability is less than 22% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 1998, is \$573.8 million.

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the MHEAA will maintain cash and marketable securities of at least 2% of the aggregate unpaid principal amount of all loans they have guaranteed. The MHEAA was in compliance with this requirement as of September 30, 1998.

STATE OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

NOTE 29 – SUBSEQUENT EVENTS

Long-Term Borrowing

On November 3, 1998, voters passed Proposal C, authorizing the issuance of \$675 million of Clean Michigan Initiative bonds beginning in fiscal year 1998-1999. The funds will be used primarily for Brownfield redevelopment, environmental cleanup, and water enhancement and protection.

Tobacco Settlement

On November 20, 1998, Michigan's Attorney General announced that the State would agree to a legal settlement with four of the nation's largest tobacco companies. As of February 27, 1999, a final settlement which could result in Michigan receiving \$8.5 billion in annual payments over a 26-year period commencing in calendar year 2000, remains contingent on the approval of a majority of states involved in the settlement's negotiations and the tobacco industry's final acceptance of the plan.

Executive Reorganization

Under Executive Order 1999-1, effective April 5, 1999, a principal department, Michigan Jobs Commission, will be abolished. The authority, duties, and responsibilities of the Michigan Jobs Commission will be split between a newly created principal department, Career Development, and the Michigan Strategic Fund, an autonomous type I agency within the Department of Management and Budget.

II FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 ISSUES

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1 entitled, *Disclosures about Year 2000 Issues*. The provisions of the GASB technical bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures in the notes to the financial statements about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial statements. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. To address the year 2000 issues, the State established the Year 2000 Project Office within the Department of Management and Budget. The Year 2000 Project Office's mission is to lead, support, and facilitate achievement of year 2000 compliance throughout the State's executive branch to ensure uninterrupted service to Michigan's citizens. The Year 2000 Project Office is monitoring year 2000 compliance efforts at the various agencies and is providing assistance and assigning resources to accelerate compliance for all mission critical systems and equipment.

An executive directive, issued in February 1998, directed all executive branch agencies to make the year 2000 issue the number one priority. As a result, the State developed a comprehensive risk management program that identified risks faced by the State concerning year 2000 operability.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- (1) Awareness stage – encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- (2) Assessment stage – when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- (3) Remediation stage – when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant, and the required system changes are made.
- (4) Validation/Testing stage – when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and retested.

The State identified 748 computer applications, primarily within the executive branch, that are critical to conducting the State's operations and that need to be year 2000 compliant. The Year 2000 Project Office has also received written assurance from agencies whose critical applications are being evaluated by outside vendors. The agencies were responsible for assessing the status of computer equipment and were replacing or upgrading their equipment as needed. The agencies should complete this assessment on or before October 1, 1999.

The State's year 2000 remediation efforts have been aimed primarily at ensuring unimpeded and uninterrupted operation, including tax collections, investment activities, and timely payment of its obligations. As of September 30, 1998, the State had validated and tested 57% of the 748 mission critical computer applications. The remaining 43% of the critical applications were in other stages of completion.

The Legislature appropriated \$55.6 million to assist agencies in obtaining external resources to address year 2000 issues. As of September 30, 1998, the State had expended \$18.3 million of the appropriation. There were no significant commitments (contracts) outstanding with vendors on September 30, 1998.

Management believes that the State has the correct plan in place and that the State will be able to process date and/or date-related information correctly prior to, during, and after January 1, 2000. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determinable until the year 2000 and thereafter. Consequently, management cannot guarantee that the State is or will be year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be year 2000 ready.



The Department of Agriculture Laboratory Division routinely analyzes food, dairy, and beverage products for pasteurization, drug residues, pathogens, pesticide residues, toxic substances, and foreign materials. Shown above are employees of the Geagley Laboratory in East Lansing, providing testing and analytical services to ensure the health, safety, and economic well-being of the citizens and the environment of Michigan.



Agriculture is Michigan's second-largest industry, generating \$3.6 billion annually in farmgate receipts and another \$31.4 billion annually in food processing and related activities. Approximately 200,000 Michigan residents are employed in agriculture.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 1998
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED
ASSETS			
Current Assets:			
Cash	\$ 30	\$ 85	\$ -
Equity in Common Cash	633,426	593,101	40,221
Taxes, interest, and penalties receivable	93,952	5,192	-
Amounts due from other funds	59,519	40,589	-
Amounts due from component units	622	-	-
Amounts due from federal agencies	200,965	1,186	16,432
Amounts due from local units	30,820	160	155
Inventories	9,800	82	-
Investments	-	100	-
Other current assets	10,426	17,375	617
Total Current Assets	<u>1,039,560</u>	<u>657,869</u>	<u>57,424</u>
Taxes, interest, and penalties receivable	449	-	-
Advances to other funds	35,142	-	-
Amounts due from federal agencies	107	-	-
Amounts due from local units	29,486	-	-
Investments	-	96,782	-
Other noncurrent assets	4,842	2,172	-
Total Assets	<u>\$ 1,109,586</u>	<u>\$ 756,823</u>	<u>\$ 57,424</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ 26,119	\$ 3,009	\$ 637
Accounts payable and other liabilities	386,479	51,571	17,976
Amounts due to other funds	60,864	39,924	5,162
Amounts due to component units	-	-	-
Bonds and notes payable	-	44,465	-
Deferred revenue	5,454	1,712	6
Total Current Liabilities	<u>478,915</u>	<u>140,682</u>	<u>23,781</u>
Long-Term Liabilities:			
Advances from other funds	35,142	-	-
Deferred revenue	12,994	1,954	-
Total Liabilities	<u>527,050</u>	<u>142,635</u>	<u>23,781</u>
Fund Balances:			
Reserves for:			
Budgetary carry-forwards:			
Encumbrances	51,313	9,584	1,724
Restricted revenues	185,943	85,826	7,721
Multi-year projects	216,254	140,940	23,957
Revolving loan programs	9,014	-	-
Funds held as permanent investments	-	305,251	-
Noncurrent assets	29,594	-	-
Total Reserved	<u>492,118</u>	<u>541,601</u>	<u>33,402</u>
Unreserved	90,417	72,587	241
Total Fund Balances	<u>582,536</u>	<u>614,188</u>	<u>33,643</u>
Total Liabilities and Fund Balances	<u>\$ 1,109,586</u>	<u>\$ 756,823</u>	<u>\$ 57,424</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 1998
 (In Thousands)

	OTHER STATE FUNDS	TOTALS	
		SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
ASSETS			
Current Assets:			
Cash	\$ -	\$ 115	\$ 131
Equity in Common Cash	1,132,943	2,399,690	1,895,391
Taxes, interest, and penalties receivable	717,489	816,632	758,552
Amounts due from other funds	-	100,108	604,325
Amounts due from component units	-	622	330
Amounts due from federal agencies	650	219,233	159,289
Amounts due from local units	8,466	39,601	41,896
Inventories	-	9,882	6,903
Investments	-	100	105
Other current assets	678	29,095	22,397
Total Current Assets	1,860,226	3,615,079	3,489,319
Taxes, interest, and penalties receivable	11,024	11,473	10,375
Advances to other funds	-	35,142	45,142
Amounts due from federal agencies	-	107	40,245
Amounts due from local units	624	30,110	39,405
Investments	48,906	145,688	113,432
Other noncurrent assets	-	7,014	6,694
Total Assets	\$ 1,920,779	\$ 3,844,613	\$ 3,744,612
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ 347	\$ 30,113	\$ 63,513
Accounts payable and other liabilities	90,139	546,165	465,708
Amounts due to other funds	363,056	469,006	561,960
Amounts due to component units	66	66	66
Bonds and notes payable	-	44,465	60,090
Deferred revenue	-	7,171	8,366
Total Current Liabilities	453,608	1,096,985	1,159,703
Long-Term Liabilities:			
Advances from other funds	-	35,142	45,142
Deferred revenue	11,024	25,971	16,779
Total Liabilities	464,632	1,158,098	1,221,624
Fund Balances:			
Reserves for:			
Budgetary carry-forwards:			
Encumbrances	1	62,622	45,852
Restricted revenues	899	280,389	819,374
Multi-year projects	-	381,152	301,141
Revolving loan programs	-	9,014	2,115
Funds held as permanent investments	56,767	362,018	325,824
Noncurrent assets	624	30,218	79,596
Total Reserved	58,291	1,125,413	1,573,903
Unreserved	1,397,857	1,561,102	949,085
Total Fund Balances	1,456,148	2,686,515	2,522,988
Total Liabilities and Fund Balances	\$ 1,920,779	\$ 3,844,613	\$ 3,744,612

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	<u>TRANSPORTATION RELATED</u>	<u>CONSERVATION, ENVIRONMENT, AND RECREATION RELATED</u>	<u>REGULATORY AND ADMINISTRATIVE RELATED</u>
REVENUES			
Taxes	\$ 1,754,700	\$ 57,587	\$ -
From federal agencies	576,546	2,810	130,580
From local agencies	44,213	-	154
From services	506	-	-
From licenses and permits	79,607	84,693	12,113
Miscellaneous	<u>70,043</u>	<u>119,493</u>	<u>9,398</u>
Total Revenues	<u>2,525,615</u>	<u>264,583</u>	<u>152,245</u>
EXPENDITURES			
Current:			
General government	-	3,277	7,388
Education	-	-	-
Family Independence services	-	-	-
Public safety and corrections	-	-	-
Conservation, environment, recreation, and agriculture	-	179,599	-
Labor, commerce, and regulatory	-	-	159,765
Transportation	1,555,083	-	-
Capital outlay	828,665	30,705	-
Debt service:			
Capital lease payments	<u>279</u>	<u>-</u>	<u>976</u>
Total Expenditures	<u>2,384,027</u>	<u>213,580</u>	<u>168,128</u>
Excess of Revenues over (under) Expenditures	<u>141,588</u>	<u>51,003</u>	<u>(15,883)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issues	-	91,198	-
Capital lease acquisitions	251	-	2,257
Operating transfers from other funds	859,012	35,285	14,352
Operating transfers to other funds	<u>(1,020,736)</u>	<u>(52,465)</u>	<u>(2,992)</u>
Total Other Financing Sources (Uses)	<u>(161,472)</u>	<u>74,018</u>	<u>13,617</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(19,884)	125,021	(2,266)
Fund Balances - Beginning of fiscal year - restated	602,420	455,949	35,427
Equity transfers from other funds	<u>-</u>	<u>33,218</u>	<u>482</u>
Fund Balances - End of fiscal year	<u>\$ 582,536</u>	<u>\$ 614,188</u>	<u>\$ 33,643</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	OTHER STATE FUNDS	TOTALS	
		FISCAL YEARS ENDED	
		SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
REVENUES			
Taxes	\$ 8,180,324	\$ 9,992,611	\$ 9,274,952
From federal agencies	85,274	795,211	792,794
From local agencies	-	44,367	55,693
From services	-	506	508
From licenses and permits	-	176,413	160,023
Miscellaneous	83,332	282,267	275,951
	8,348,931	11,291,374	10,559,921
EXPENDITURES			
Current:			
General government	30,008	40,672	2,787
Education	9,369,487	9,369,487	8,605,644
Family Independence services	1,653	1,653	1,597
Public safety and corrections	3,709	3,709	3,604
Conservation, environment, recreation, and agriculture	-	179,599	183,261
Labor, commerce, and regulatory	-	159,765	174,563
Transportation	-	1,555,083	1,459,704
Capital outlay	-	859,370	694,251
Debt service:			
Capital lease payments	-	1,254	1,012
	9,404,857	12,170,593	11,126,423
Excess of Revenues over (under) Expenditures	(1,055,927)	(879,218)	(566,502)
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issues	160,256	251,454	54,021
Capital lease acquisitions	-	2,508	817
Operating transfers from other funds	1,204,088	2,112,737	1,703,828
Operating transfers to other funds	(281,462)	(1,357,654)	(1,069,640)
	1,082,883	1,009,045	689,026
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	26,956	129,827	122,524
Fund Balances - Beginning of fiscal year - restated	1,429,192	2,522,988	2,400,463
Equity transfers from other funds	-	33,700	-
Fund Balances - End of fiscal year	\$ 1,456,148	\$ 2,686,515	\$ 2,522,988

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,754,700	\$ 1,754,700	\$ -	\$ 133	\$ 133	\$ -
From federal agencies	519,612	519,612	-	2,809	2,809	-
From local agencies	42,735	42,827	92	-	-	-
From services	-	506	506	-	-	-
From licenses and permits	80,570	79,607	(964)	84,692	84,692	-
Miscellaneous	66,363	66,729	366	57,572	57,572	-
Operating transfers in	858,887	858,887	-	18,405	18,405	-
Total Revenues and Other Sources	3,322,868	3,322,868	-	163,612	163,612	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Management and Budget	-	-	-	-	-	-
Consumer and Industry Services	-	-	-	-	-	-
Treasury	-	-	-	-	-	-
Education	-	-	-	-	-	-
Family Independence Agency	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	-	-	-	153,434	145,283	8,150
Transportation	3,455,373	3,354,923	100,450	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	3,455,373	3,354,923	100,450	153,434	145,283	8,150
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (132,505)	(32,055)	\$ 100,450	\$ 10,178	18,328	\$ 8,150
Reconciling Items:						
Encumbrances at September 30		51,313			8,642	
Funds not annually budgeted		(39,142)			98,051	
Net Reconciling Items		12,171			106,693	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(19,884)			125,021	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		602,420			455,949	
Equity transfers from other funds		-			33,218	
Ending balances (GAAP Basis)		\$ 582,536			\$ 614,188	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 8,183,924	\$ 8,180,324	\$ (3,600)
From federal agencies	130,580	130,580	-	85,274	85,274	-
From local agencies	154	154	-	-	-	-
From services	-	-	-	-	-	-
From licenses and permits	12,113	12,113	-	-	-	-
Miscellaneous	8,051	8,051	-	83,332	83,332	-
Operating transfers in	14,352	14,352	-	1,204,088	1,204,088	-
Total Revenues and Other Sources	165,250	165,250	-	9,556,619	9,553,019	(3,600)
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Management and Budget	-	-	-	212,000	212,000	-
Consumer and Industry Services	159,571	159,571	-	-	-	-
Treasury	10,922	9,205	1,717	29,400	29,400	-
Education	-	-	-	9,392,652	9,376,436	16,216
Family Independence Agency	-	-	-	1,664	1,664	-
Military and Veterans Affairs	-	-	-	4,692	3,759	934
Natural Resources	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	170,493	168,776	1,717	9,640,409	9,623,259	17,149
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (5,243)</u>	<u>(3,526)</u>	<u>\$ 1,717</u>	<u>\$ (83,790)</u>	<u>(70,241)</u>	<u>\$ 13,549</u>
Reconciling Items:						
Encumbrances at September 30		1,724			1	
Funds not annually budgeted		(464)			97,195	
Net Reconciling Items		1,260			97,196	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(2,266)</u>			<u>26,956</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		35,427			1,429,192	
Equity transfers from other funds		482			-	
Ending balances (GAAP Basis)		<u>\$ 33,643</u>			<u>\$ 1,456,148</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	TOTALS		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	\$ 9,938,758	\$ 9,935,158	\$ (3,600)
From federal agencies	738,275	738,275	-
From local agencies	42,889	42,981	92
From services	-	506	506
From licenses and permits	177,376	176,412	(964)
Miscellaneous	215,319	215,685	366
Operating transfers in	2,095,732	2,095,732	-
Total Revenues and Other Sources	13,208,348	13,204,748	(3,600)
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Management and Budget	212,000	212,000	-
Consumer and Industry Services	159,571	159,571	-
Treasury	40,322	38,605	1,717
Education	9,392,652	9,376,436	16,216
Family Independence Agency	1,664	1,664	-
Military and Veterans Affairs	4,692	3,759	934
Natural Resources	153,434	145,283	8,150
Transportation	3,455,373	3,354,923	100,450
Total Expenditures, Operating Transfers Out, and Encumbrances	13,419,708	13,292,242	127,467
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (211,360)	(87,493)	\$ 123,867
Reconciling Items:			
Encumbrances at September 30		61,680	
Funds not annually budgeted		155,640	
Net Reconciling Items		217,320	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		129,827	
FUND BALANCES (GAAP BASIS)			
Beginning balances - restated		2,522,988	
Equity transfers from other funds		33,700	
Ending balances (GAAP Basis)		\$ 2,686,515	

STATE OF MICHIGAN
DESCRIPTIONS OF SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1998

STATE AERONAUTICS FUND

This fund, established by P.A. 327 of 1945, is administered by the Department of Transportation for improvement of airports. Its budget is subject to annual legislative review and appropriation. Financing consists mostly of federal and local contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs.

STATE TRUNKLINE FUND

This fund is administered by the Department of Transportation for construction and maintenance of highways. Its overall budget is subject to annual legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of a transfer from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and operating transfers out are for administration, highway maintenance and construction, debt service, and various contractual obligations. In accordance with statutory provisions, any fund balance not otherwise reserved at fiscal year-end is reserved for road and bridge construction purposes.

The State Trunkline Fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Loan repayments, which are received directly by the State Trunkline Fund, are not pledged to the payment of the bonds which originally provided the financing to make the loans. The activities of the Blue Water Bridge program, which is segregated as a separate fund within the accounting system, are also reported in this column. A portion of the receivables and payables between the State Trunkline Fund and the Blue Water Bridge Fund are presented as "Due from other funds – current" and "Due to other funds – current". The remainder is classified as long-term "Advances" because repayment will not occur within the next 12 months.

MICHIGAN TRANSPORTATION FUND

This fund, established by section 10 of P.A. 51 of 1951, as amended, is administered jointly by the Department of Transportation and the Department of State. The fund is a receiving fund for several tax revenues dedicated to highway purposes. Transfers are made from the fund 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

This fund, established by P.A. 327 of 1972, as amended, is administered by the Department of Transportation. It was created to account for the planning and development of public transportation systems within the State. Financing is provided by federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the fund for appropriation in the following fiscal year. In addition to providing direct expenditures for public transportation purposes, the fund is used to provide financing for entities providing bus and rail services. Such financing is provided primarily by purchasing buses and reselling them to private carriers on a credit basis and by purchasing and leasing back rail-related assets.

COMBINED STATE TRUNKLINE FUND BOND PROCEEDS FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of State trunkline revenue dedicated bonds. These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system. The bonds were also used to finance loans to local units of government for reconstructing and resurfacing roadways. These loans are recorded as assets in the State Trunkline Fund, which receives the loan repayments. Residual balances from specific bond issues are transferred to the State Trunkline Fund by equity transfer.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ 30	\$ -	\$ -
Equity in Common Cash	23,648	312,236	185,251	64,987
Taxes, interest, and penalties receivable	886	-	93,066	-
Amounts due from other funds	-	47,590	-	11,928
Amounts due from component units	-	622	-	-
Amounts due from federal agencies	4,423	160,292	-	8,925
Amounts due from local units	5,153	25,403	-	63
Inventories	-	9,800	-	-
Other current assets	44	6,231	3,066	1,077
Total Current Assets	<u>34,154</u>	<u>562,205</u>	<u>281,383</u>	<u>86,981</u>
Taxes, interest, and penalties receivable	-	-	449	-
Advances to other funds	-	35,142	-	-
Amounts due from federal agencies	107	-	-	-
Amounts due from local units	902	28,584	-	-
Other noncurrent assets	<u>1</u>	<u>3,300</u>	<u>-</u>	<u>1,542</u>
Total Assets	<u>\$ 35,164</u>	<u>\$ 629,231</u>	<u>\$ 281,832</u>	<u>\$ 88,523</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 920	\$ 22,496	\$ 907	\$ 324
Accounts payable and other liabilities	5,383	130,517	225,957	16,582
Amounts due to other funds	24	6,280	54,519	40
Deferred revenue	3,829	1,480	-	-
Total Current Liabilities	<u>10,156</u>	<u>160,773</u>	<u>281,383</u>	<u>16,946</u>
Long-Term Liabilities:				
Advances from other funds	-	35,142	-	-
Deferred revenue	<u>-</u>	<u>11,003</u>	<u>449</u>	<u>1,542</u>
Total Liabilities	<u>10,156</u>	<u>206,918</u>	<u>281,832</u>	<u>18,487</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	1,701	17,800	-	31,812
Restricted revenues	5,000	177,500	-	3,444
Multi-year projects	15,282	196,495	-	4,477
Revolving loan programs	1,081	1,933	-	6,000
Noncurrent assets	1,010	28,584	-	-
Total Reserved	<u>24,073</u>	<u>422,313</u>	<u>-</u>	<u>45,733</u>
Unreserved	<u>935</u>	<u>-</u>	<u>-</u>	<u>24,302</u>
Total Fund Balances	<u>25,008</u>	<u>422,313</u>	<u>-</u>	<u>70,035</u>
Total Liabilities and Fund Balances	<u>\$ 35,164</u>	<u>\$ 629,231</u>	<u>\$ 281,832</u>	<u>\$ 88,523</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	COMBINED STATE TRUNKLINE FUND BOND PROCEEDS FUND	COMBINED TRANSPORTATION BOND PROCEEDS FUND	TOTALS <u>SEPTEMBER 30,</u> <u>1998</u>	<u>SEPTEMBER 30,</u> <u>1997</u>
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ 30	\$ 42
Equity in Common Cash	32,102	15,202	633,426	674,616
Taxes, interest, and penalties receivable	-	-	93,952	98,413
Amounts due from other funds	-	-	59,519	59,006
Amounts due from component units	-	-	622	330
Amounts due from federal agencies	27,325	-	200,965	153,266
Amounts due from local units	201	-	30,820	25,300
Inventories	-	-	9,800	6,883
Other current assets	7	-	10,426	7,547
Total Current Assets	<u>59,635</u>	<u>15,202</u>	<u>1,039,560</u>	<u>1,025,404</u>
Taxes, interest, and penalties receivable	-	-	449	265
Advances to other funds	-	-	35,142	45,142
Amounts due from federal agencies	-	-	107	40,245
Amounts due from local units	-	-	29,486	38,545
Other noncurrent assets	<u>-</u>	<u>-</u>	<u>4,842</u>	<u>3,612</u>
Total Assets	<u>\$ 59,635</u>	<u>\$ 15,202</u>	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 1,471	\$ -	\$ 26,119	\$ 59,439
Accounts payable and other liabilities	5,226	2,815	386,479	375,991
Amounts due to other funds	-	-	60,864	61,158
Deferred revenue	145	-	5,454	5,132
Total Current Liabilities	<u>6,842</u>	<u>2,815</u>	<u>478,915</u>	<u>501,720</u>
Long-Term Liabilities:				
Advances from other funds	-	-	35,142	45,142
Deferred revenue	<u>-</u>	<u>-</u>	<u>12,994</u>	<u>3,930</u>
Total Liabilities	<u>6,842</u>	<u>2,815</u>	<u>527,050</u>	<u>550,792</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	-	51,313	43,141
Restricted revenues	-	-	185,943	158,293
Multi-year projects	-	-	216,254	162,339
Revolving loan programs	-	-	9,014	1,010
Noncurrent assets	<u>-</u>	<u>-</u>	<u>29,594</u>	<u>78,736</u>
Total Reserved	<u>-</u>	<u>-</u>	<u>492,118</u>	<u>443,519</u>
Unreserved	<u>52,793</u>	<u>12,387</u>	<u>90,417</u>	<u>158,900</u>
Total Fund Balances	<u>52,793</u>	<u>12,387</u>	<u>582,536</u>	<u>602,420</u>
Total Liabilities and Fund Balances	<u>\$ 59,635</u>	<u>\$ 15,202</u>	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	<u>STATE AERONAUTICS FUND</u>	<u>STATE TRUNKLINE FUND</u>	<u>MICHIGAN TRANSPORTATION FUND</u>	<u>COMPREHENSIVE TRANSPORTATION FUND</u>
REVENUES				
Taxes	\$ 6,868	\$ -	\$ 1,687,523	\$ 60,310
From federal agencies	47,582	458,841	-	13,190
From local agencies	14,067	28,668	-	92
From services	506	-	-	-
From licenses and permits	86	20,259	59,050	212
Miscellaneous	<u>1,506</u>	<u>45,236</u>	<u>13,734</u>	<u>6,254</u>
Total Revenues	<u>70,615</u>	<u>553,003</u>	<u>1,760,307</u>	<u>80,056</u>
EXPENDITURES				
Current:				
Transportation	71,695	409,143	836,990	233,715
Capital outlay	20	723,056	-	9,775
Debt service:				
Capital lease payments	<u>-</u>	<u>279</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>71,715</u>	<u>1,132,478</u>	<u>836,990</u>	<u>243,490</u>
Excess of Revenues over (under) Expenditures	<u>(1,100)</u>	<u>(579,475)</u>	<u>923,317</u>	<u>(163,434)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	-	-	-	-
Capital lease acquisitions	-	251	-	-
Operating transfers from other funds	-	712,639	149	146,099
Operating transfers to other funds	<u>(199)</u>	<u>(71,854)</u>	<u>(923,466)</u>	<u>(23,669)</u>
Total Other Financing Sources (Uses)	<u>(199)</u>	<u>641,036</u>	<u>(923,317)</u>	<u>122,430</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(1,299)	61,561	-	(41,004)
Fund Balances - Beginning of fiscal year	<u>26,307</u>	<u>360,752</u>	<u>-</u>	<u>111,040</u>
Fund Balances - End of fiscal year	<u>\$ 25,008</u>	<u>\$ 422,313</u>	<u>\$ -</u>	<u>\$ 70,035</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	COMBINED STATE TRUNKLINE FUND BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TOTALS	
			FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
REVENUES				
Taxes	\$ -	\$ -	\$ 1,754,700	\$ 1,483,016
From federal agencies	56,934	-	576,546	578,700
From local agencies	1,386	-	44,213	53,771
From services	-	-	506	508
From licenses and permits	-	-	79,607	68,923
Miscellaneous	2,414	900	70,043	57,333
	60,734	900	2,525,615	2,242,251
EXPENDITURES				
Current:				
Transportation	-	3,541	1,555,083	1,459,704
Capital outlay	95,813	-	828,665	666,488
Debt service:				
Capital lease payments	-	-	279	228
	95,813	3,541	2,384,027	2,126,420
Excess of Revenues over (under) Expenditures	(35,079)	(2,641)	141,588	115,831
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	-	-	-	54,021
Capital lease acquisitions	-	-	251	175
Operating transfers from other funds	125	-	859,012	777,801
Operating transfers to other funds	(1,542)	(5)	(1,020,736)	(898,582)
	(1,417)	(5)	(161,472)	(66,585)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(36,496)	(2,645)	(19,884)	49,246
Fund Balances - Beginning of fiscal year	89,290	15,032	602,420	553,174
Fund Balances - End of fiscal year	\$ 52,793	\$ 12,387	\$ 582,536	\$ 602,420

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	STATE AERONAUTICS FUND			STATE TRUNKLINE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ 6,868	\$ 6,868	\$ -	\$ -	\$ -	\$ -
From federal agencies	47,582	47,582	-	458,841	458,841	-
From local agencies	14,067	14,067	-	28,668	28,668	-
From services	-	506	506	-	-	-
From licenses and permits	-	86	86	20,259	20,259	-
Miscellaneous	2,098	1,506	(592)	45,236	45,236	-
Operating transfers in	-	-	-	712,639	712,639	-
Total Revenues and Other Sources	70,615	70,615	-	1,265,642	1,265,642	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Transportation	74,364	73,614	750	1,252,470	1,221,881	30,588
Total Expenditures, Operating Transfers Out, and Encumbrances	74,364	73,614	750	1,252,470	1,221,881	30,588
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (3,749)</u>	<u>(2,999)</u>	<u>\$ 750</u>	<u>\$ 13,172</u>	<u>43,761</u>	<u>\$ 30,588</u>
Reconciling Items:						
Encumbrances at September 30		1,701			17,800	
Funds not annually budgeted		-			-	
Net Reconciling Items		1,701			17,800	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(1,299)</u>			<u>61,561</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		26,307			360,752	
Ending balances (GAAP Basis)		<u>\$ 25,008</u>			<u>\$ 422,313</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN TRANSPORTATION FUND			COMPREHENSIVE TRANSPORTATION FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ 1,687,523	\$ 1,687,523	\$ -	\$ 60,310	\$ 60,310	\$ -
From federal agencies	-	-	-	13,190	13,190	-
From local agencies	-	-	-	-	92	92
From services	-	-	-	-	-	-
From licenses and permits	60,311	59,050	(1,261)	-	212	212
Miscellaneous	12,473	13,734	1,261	6,557	6,254	(303)
Operating transfers in	149	149	-	146,099	146,099	-
Total Revenues and Other Sources	<u>1,760,457</u>	<u>1,760,457</u>	<u>-</u>	<u>226,155</u>	<u>226,155</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Transportation	<u>1,820,315</u>	<u>1,760,457</u>	<u>59,859</u>	<u>308,224</u>	<u>298,971</u>	<u>9,253</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>1,820,315</u>	<u>1,760,457</u>	<u>59,859</u>	<u>308,224</u>	<u>298,971</u>	<u>9,253</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (59,859)</u>	<u>-</u>	<u>\$ 59,859</u>	<u>\$ (82,069)</u>	<u>(72,816)</u>	<u>\$ 9,253</u>
Reconciling Items:						
Encumbrances at September 30		-			31,812	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			<u>31,812</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			<u>(41,004)</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		-			<u>111,040</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 70,035</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

FUNDS NOT ANNUALLY BUDGETED					
	COMBINED STATE TRUNKLINE FUND BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	TOTALS		
Statutory/Budgetary Basis	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES					
Taxes	\$ -	\$ -	\$ 1,754,700	\$ 1,754,700	\$ -
From federal agencies	-	-	519,612	519,612	-
From local agencies	-	-	42,735	42,827	92
From services	-	-	-	506	506
From licenses and permits	-	-	80,570	79,607	(964)
Miscellaneous	-	-	66,363	66,729	366
Operating transfers in	-	-	858,887	858,887	-
Total Revenues and Other Sources	-	-	3,322,868	3,322,868	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY					
Transportation	-	-	3,455,373	3,354,923	100,450
Total Expenditures, Operating Transfers Out, and Encumbrances	-	-	3,455,373	3,354,923	100,450
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	<u>\$ (132,505)</u>	<u>(32,055)</u>	<u>\$ 100,450</u>
Reconciling Items:					
Encumbrances at September 30	-	-		51,313	
Funds not annually budgeted	(36,496)	(2,645)		(39,142)	
Net Reconciling Items	(36,496)	(2,645)		12,171	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(36,496)	(2,645)		(19,884)	
FUND BALANCES (GAAP BASIS)					
Beginning balances	89,290	15,032		602,420	
Ending balances (GAAP Basis)	<u>\$ 52,793</u>	<u>\$ 12,387</u>		<u>\$ 582,536</u>	

STATE OF MICHIGAN
DESCRIPTIONS OF SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1998

GAME AND FISH PROTECTION FUND

This fund was established in 1921 and operates under Part 435 of P.A. 451 of 1994, as amended, 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 investment earnings of the Game and Fish Protection Trust Fund. The fund provides financial support for state-wide hunting and fishing programs. Resource management, research, enforcement of hunting and fishing laws, and acquisition of lands to be used for hunting and fishing purposes are examples of uses of this fund.

MICHIGAN STATE WATERWAYS FUND

This fund was established in 1947 and operates under Part 781 of P.A. 451 of 1994, as amended. It 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.

MARINE SAFETY FUND

This fund was established in 1967 and operates under Part 801 of P.A. 451 of 1994, as amended. The fund is financed principally by 49% of watercraft registration fees imposed by this act. 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 Part 437 of P.A. 451 of 1994, as amended, to restrict certain assets for the purpose of generating interest and earnings for transfer to the Game and Fish Protection Fund each year. Additional investment funding is being provided by 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.

STATE PARK IMPROVEMENT FUND

This fund was established in 1960 and operates under Part 741 of P.A. 451 of 1994, as amended. It 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, and improvements of the State Park system.

RECREATION BOND FUND - LOCAL PROJECTS

This fund was established in 1988 and operates under Part 715 of P.A. 451 of 1994, as amended. The balances remaining reflect proceeds and interest earnings remaining from \$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. The proceeds are being used to provide grants and loans to local units of government in the amounts of \$65 million by local recreation projects and \$5 million by discouraging development of open space and underdeveloped lands.

ENVIRONMENTAL PROTECTION BOND FUND

This fund, which is administered by the Department of Environmental Quality, was established by P.A. 328 of 1988 to account for the proceeds of \$660 million of general obligation bonds approved by Michigan voters in November, 1988. This approval was obtained under the general authority of Article 9, Section 15, of the 1963 State Constitution. The bonds are authorized for financing environmental protection programs to clean up sites of toxic and other environmental contamination and contribute to a regional Great Lakes Protection Fund, address solid waste problems, treat sewage and other water quality problems, and reuse industrial sites and preserve open space. Public Act 328 of 1988 also specifies that not more than \$425 million of the proceeds of these bonds be available to clean up sites of toxic and other environmental contamination, not more than \$150 million be available for solid waste projects, not more than \$60 million be available to capitalize the State Water Pollution Control Loan Fund (recorded as equity transfers to the Michigan Municipal Bond Authority), and not more than \$25 million be available to fund Michigan's participation in a regional Great Lakes Protection Fund.

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in 1984 to provide for a "Michigan Natural Resources Trust Fund" which was implemented in 1985. This fund operates under Part 19 of P.A. 451 of 1994, as amended. Most rentals, royalties, and other revenues derived from mineral, coal, oil, and gas interests on State-owned land are credited to the fund. Public Act 451 of 1994 redirected a portion (\$10 million per year) of these revenues, previously committed to this fund, to the Michigan State Parks Endowment Fund.

In accordance with statutory provisions, this fund is to accumulate up to \$400 million in reserves for permanent investments. The amount accumulated toward the cap is shown as a reservation of fund balance. Earnings on investments and one third of royalty earnings are available for appropriation. Two thirds of royalty earnings are added to amounts held for permanent investments until the investment reserve reaches \$200 million. After that time, all royalties are restricted for investment and only interest is available to appropriate. Appropriations are used to fund grants to local units of government as well as State agencies to acquire or develop outdoor public recreation facilities.

STATE OF MICHIGAN
DESCRIPTIONS OF SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MICHIGAN STATE PARKS ENDOWMENT FUND

This fund was established in 1994 and operates under Part 741 of P.A. 451 of 1994, as amended, to finance operations, maintenance, and capital improvements at Michigan State parks. The fund was established with a \$40 million equity transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. By statute, up to \$10 million per year of revenues from oil and gas bonuses, rentals, and royalties from State-owned land are to be deposited in this fund until its accumulated principal reaches \$400 million. The fund's investment reserve will be capped at \$800 million. The legislature is limited to appropriating no more than \$5 million, adjusted for inflation, each year from the fund until the cap is attained. When the fund's reserve reaches \$800 million, only the interest and earnings in excess of the amount needed to maintain the \$800 million principal limit may be expended.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

This fund was established in 1983 and operates under Part 439 of P.A. 451 of 1994, as amended, to provide for research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this State. Until the assets of the fund exceed \$6 million, Michigan state income taxpayers may designate \$2 or more of their tax refund to this fund. The fund may also receive appropriations from other funds, donations, and investment income. Annually, 20% or more of the fund's revenues must be retained for permanent investment.

MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND

This fund was established by P.A. 394 of 1994, as amended. The Michigan Civilian Conservation Corps was established for the purpose of conserving, improving, and developing the State's natural resources, and for enhancing, preserving, and maintaining public lands and waters through the employment of residents of this State in work training programs.

The fund's permanent investment reserve was provided by \$20 million earmarked from the sale of the Accident Fund of Michigan. Only the interest and earnings of the fund can be expended.

FOREST DEVELOPMENT FUND

This fund was established in 1993, along with the Michigan Forest Finance Authority, and operates under Part 505 of P.A. 451 of 1994, as amended. The Authority may, but thus far has not, issued bonds. 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 would be 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 Management Division and are used for forest management operations and practices.

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND

The Michigan Underground Storage Tank Financial Assurance Fund (MUSTFA) was established by P.A. 518 of 1988 to assist certain owners and operators of underground storage tank systems in meeting their financial responsibility requirements provided for in the Solid Waste Disposal Act. It is administered by the Department of Environmental Quality and an eleven member advisory board.

The primary source of revenues is an environmental protection regulatory fee of 7/8 cent per gallon imposed on all refined petroleum products sold for resale. Expenditures are primarily amounts spent to assist in environmental cleanup. Public Acts 252 and 269 of 1995 limit the fund's liability for claims to those billings received by June 29, 1995. The State's liability for environmental cleanup claims is further limited by law to the amount of available resources. Liabilities for unpaid eligible environmental cleanup claims in excess of available funds will be paid from future years' revenues, and are recorded as a liability in the General Long-Term Obligations Account Group.

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY

The Michigan Underground Storage Tank Financial Assurance Finance Authority was created by P.A. 132 of 1993 to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund, including short or long-term debt instruments. The Authority is governed by a five member board of directors.

BOTTLE DEPOSITS FUND

This fund was created by P.A. 384 of 1996 to provide for the disposition of unredeemed bottle deposits. The fund is jointly administered by the Department of Treasury and the Department of Environmental Quality. The law mandates that when the fund is fully operational, an annual distribution of the funds will be made as follows: 25% returned to the dealers and 75% to fund several subfunds.

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. In the first year of operations, the \$35 million of Bottle Deposits arrearage revenues were applied to the CRTF. For each fiscal year 1997 through 1999, up to \$15 million must be distributed from the CRTF to the Cleanup and Redevelopment Sub-Fund (CRF). Additionally, of funds received annually by the CRTF, 80% is allocated to the CRF and 10% to the Community Pollution Prevention Sub-Fund (CPPF).

Public Act 380 of 1996 moved the former Environmental Response Fund (ERF) to a subfund 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.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND
ASSETS				
Current Assets:				
Cash	\$ 1	\$ -	\$ -	\$ -
Equity in Common Cash	25,574	51,380	5,178	51,044
Taxes, interest, and penalties receivable	-	85	-	-
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	653	448	85	-
Amounts due from local units	98	-	-	-
Inventories	-	82	-	-
Investments	-	-	-	-
Other current assets	3,919	1	-	1,126
Total Current Assets	<u>30,245</u>	<u>51,996</u>	<u>5,263</u>	<u>52,170</u>
Investments	-	-	-	21,007
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 30,245</u>	<u>\$ 51,996</u>	<u>\$ 5,263</u>	<u>\$ 73,177</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 163	\$ 102	\$ 31	\$ -
Accounts payable and other liabilities	3,941	1,809	901	-
Amounts due to other funds	217	50	3	-
Bonds and notes payable	-	-	-	-
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>4,321</u>	<u>1,960</u>	<u>935</u>	<u>-</u>
Deferred revenue	-	-	-	-
Total Liabilities	<u>4,321</u>	<u>1,960</u>	<u>935</u>	<u>-</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	768	2,868	92	-
Restricted revenues	7,954	19,042	-	-
Multi-year projects	1,093	13,565	-	-
Revolving loan programs	-	-	-	-
Funds held as permanent investments	1,806	-	-	73,177
Total Reserved	<u>11,620</u>	<u>35,475</u>	<u>92</u>	<u>73,177</u>
Unreserved	<u>14,304</u>	<u>14,560</u>	<u>4,236</u>	<u>-</u>
Total Fund Balances	<u>25,924</u>	<u>50,036</u>	<u>4,328</u>	<u>73,177</u>
Total Liabilities and Fund Balances	<u>\$ 30,245</u>	<u>\$ 51,996</u>	<u>\$ 5,263</u>	<u>\$ 73,177</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	STATE PARK IMPROVEMENT FUND	RECREATION BOND FUND- LOCAL PROJECTS	ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NATURAL RESOURCES TRUST FUND
ASSETS				
Current Assets:				
Cash	\$ 3	\$ -	\$ -	\$ -
Equity in Common Cash	17,415	7,885	80,261	165,797
Taxes, interest, and penalties receivable	-	-	-	-
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	-	-	-	-
Amounts due from local units	-	-	-	-
Inventories	-	-	-	-
Investments	-	-	-	-
Other current assets	95	-	116	9,155
Total Current Assets	<u>17,513</u>	<u>7,885</u>	<u>80,377</u>	<u>174,952</u>
Investments	-	-	-	53,452
Other noncurrent assets	-	-	218	-
Total Assets	<u>\$ 17,513</u>	<u>\$ 7,885</u>	<u>\$ 80,595</u>	<u>\$ 228,403</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 361	\$ -	\$ 954	\$ 788
Accounts payable and other liabilities	2,327	3,064	13,684	13,661
Amounts due to other funds	7	-	3	5
Bonds and notes payable	-	-	-	-
Deferred revenue	1,240	-	-	-
Total Current Liabilities	<u>3,935</u>	<u>3,064</u>	<u>14,640</u>	<u>14,454</u>
Deferred revenue	-	-	-	-
Total Liabilities	<u>3,935</u>	<u>3,064</u>	<u>14,640</u>	<u>14,454</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	624	-	-	4,173
Restricted revenues	-	-	-	-
Multi-year projects	2,813	-	-	45,472
Revolving loan programs	-	-	-	-
Funds held as permanent investments	-	-	-	136,625
Total Reserved	<u>3,437</u>	<u>-</u>	<u>-</u>	<u>186,271</u>
Unreserved	<u>10,141</u>	<u>4,822</u>	<u>65,955</u>	<u>27,679</u>
Total Fund Balances	<u>13,578</u>	<u>4,822</u>	<u>65,955</u>	<u>213,949</u>
Total Liabilities and Fund Balances	<u>\$ 17,513</u>	<u>\$ 7,885</u>	<u>\$ 80,595</u>	<u>\$ 228,403</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ -	\$ -
Equity in Common Cash	53,947	4,701	22,115	8,710
Taxes, interest, and penalties receivable	-	-	-	-
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	-	-	-	-
Amounts due from local units	-	62	-	-
Inventories	-	-	-	-
Investments	-	-	-	-
Other current assets	378	8	-	119
Total Current Assets	<u>54,325</u>	<u>4,771</u>	<u>22,115</u>	<u>8,829</u>
Investments	22,323	-	-	-
Other noncurrent assets	-	-	-	-
Total Assets	<u>\$ 76,648</u>	<u>\$ 4,771</u>	<u>\$ 22,115</u>	<u>\$ 8,829</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 48	\$ 15	\$ 10	\$ 247
Accounts payable and other liabilities	411	78	97	1,653
Amounts due to other funds	1	1	-	90
Bonds and notes payable	-	-	-	-
Deferred revenue	-	-	-	-
Total Current Liabilities	<u>460</u>	<u>95</u>	<u>107</u>	<u>1,990</u>
Deferred revenue	-	-	-	-
Total Liabilities	<u>460</u>	<u>95</u>	<u>107</u>	<u>1,990</u>
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	19	117	7	911
Restricted revenues	-	-	-	-
Multi-year projects	2,335	-	-	385
Revolving loan programs	-	-	-	-
Funds held as permanent investments	68,467	3,400	20,000	-
Total Reserved	<u>70,821</u>	<u>3,517</u>	<u>20,007</u>	<u>1,296</u>
Unreserved	<u>5,367</u>	<u>1,160</u>	<u>2,001</u>	<u>5,543</u>
Total Fund Balances	<u>76,188</u>	<u>4,677</u>	<u>22,008</u>	<u>6,839</u>
Total Liabilities and Fund Balances	<u>\$ 76,648</u>	<u>\$ 4,771</u>	<u>\$ 22,115</u>	<u>\$ 8,829</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	BOTTLE DEPOSITS FUND	TOTALS SEPTEMBER 30, 1998	TOTALS SEPTEMBER 3 1997 (RESTATED*)
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ 81	\$ 85	\$ 32
Equity in Common Cash	3,292	-	95,801	593,101	476,451
Taxes, interest, and penalties receivable	5,107	-	-	5,192	5,001
Amounts due from other funds	1,055	39,534	-	40,589	56,908
Amounts due from federal agencies	-	-	-	1,186	1,136
Amounts due from local units	-	-	-	160	-
Inventories	-	-	-	82	21
Investments	-	100	-	100	105
Other current assets	33	-	2,424	17,375	13,816
Total Current Assets	<u>9,487</u>	<u>39,634</u>	<u>98,306</u>	<u>657,869</u>	<u>553,470</u>
Investments	-	-	-	96,782	63,101
Other noncurrent assets	-	-	1,954	2,172	3,082
Total Assets	<u>\$ 9,487</u>	<u>\$ 39,634</u>	<u>\$ 100,259</u>	<u>\$ 756,823</u>	<u>\$ 619,653</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 270	\$ -	\$ 20	\$ 3,009	\$ 2,741
Accounts payable and other liabilities	320	206	9,419	51,571	40,202
Amounts due to other funds	39,541	-	6	39,924	56,433
Bonds and notes payable	-	44,465	-	44,465	60,090
Deferred revenue	-	-	472	1,712	1,500
Total Current Liabilities	<u>40,132</u>	<u>44,671</u>	<u>9,916</u>	<u>140,682</u>	<u>160,965</u>
Deferred revenue	-	-	1,954	1,954	2,738
Total Liabilities	<u>40,132</u>	<u>44,671</u>	<u>11,870</u>	<u>142,635</u>	<u>163,704</u>
Fund Balances:					
Reserves for:					
Budgetary carry-forwards:					
Encumbrances	5	-	-	9,584	2,710
Restricted revenues	2,918	-	55,912	85,826	86,210
Multi-year projects	75,278	-	-	140,940	115,532
Revolving loan programs	-	-	-	-	1,105
Funds held as permanent investments	-	-	1,775	305,251	267,996
Total Reserved	<u>78,201</u>	<u>-</u>	<u>57,687</u>	<u>541,601</u>	<u>473,553</u>
Unreserved	<u>(108,845)</u>	<u>(5,036)</u>	<u>30,703</u>	<u>72,587</u>	<u>(17,604)</u>
Total Fund Balances	<u>(30,644)</u>	<u>(5,036)</u>	<u>88,390</u>	<u>614,188</u>	<u>455,949</u>
Total Liabilities and Fund Balances	<u>\$ 9,487</u>	<u>\$ 39,634</u>	<u>\$ 100,259</u>	<u>\$ 756,823</u>	<u>\$ 619,653</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND
REVENUES				
Taxes	\$ -	\$ 133	\$ -	\$ -
From federal agencies	1,784	581	445	-
From licenses and permits	45,942	5,797	4,729	-
Miscellaneous	2,094	4,083	358	14,239
	<u>49,820</u>	<u>10,593</u>	<u>5,532</u>	<u>14,239</u>
Total Revenues				
EXPENDITURES				
Current:				
General government	-	-	-	-
Conservation, environment, recreation, and agriculture	43,382	12,719	4,601	-
Capital outlay	2,954	8,419	-	-
	<u>46,336</u>	<u>21,138</u>	<u>4,601</u>	<u>-</u>
Total Expenditures				
Excess of Revenues over (under) Expenditures	3,484	(10,545)	930	14,239
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	-	-	-	-
Operating transfers from other funds	3,915	14,309	-	302
Operating transfers to other funds	(1,584)	(235)	(963)	(3,923)
	<u>2,331</u>	<u>14,074</u>	<u>(963)</u>	<u>(3,621)</u>
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	5,816	3,529	(33)	10,618
Fund Balances - Beginning of fiscal year - restated	20,109	46,506	4,361	62,559
Equity transfers from other funds	-	-	-	-
Fund Balances - End of fiscal year	<u>\$ 25,924</u>	<u>\$ 50,036</u>	<u>\$ 4,328</u>	<u>\$ 73,177</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	STATE PARK IMPROVEMENT FUND	RECREATION BOND FUND- LOCAL PROJECTS	ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN NATURAL RESOURCES TRUST FUND
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-
From licenses and permits	28,224	-	-	-
Miscellaneous	794	601	1,920	48,684
	<u>29,017</u>	<u>601</u>	<u>1,920</u>	<u>48,684</u>
Total Revenues				
EXPENDITURES				
Current:				
General government	-	-	-	-
Conservation, environment, recreation, and agriculture	23,825	2,283	33,658	8,465
Capital outlay	1,189	-	-	17,381
	<u>25,014</u>	<u>2,283</u>	<u>33,658</u>	<u>25,846</u>
Total Expenditures				
Excess of Revenues over (under) Expenditures	4,004	(1,681)	(31,738)	22,839
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	-	-	91,198	-
Operating transfers from other funds	-	-	-	182
Operating transfers to other funds	(173)	(4)	(1,149)	(10,040)
	<u>(173)</u>	<u>(4)</u>	<u>90,049</u>	<u>(9,858)</u>
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	3,830	(1,686)	58,311	12,980
Fund Balances - Beginning of fiscal year - restated	9,748	6,507	7,644	200,969
Equity transfers from other funds	-	-	-	-
Fund Balances - End of fiscal year	<u>\$ 13,578</u>	<u>\$ 4,822</u>	<u>\$ 65,955</u>	<u>\$ 213,949</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	1
From licenses and permits	-	-	-	1
Miscellaneous	5,199	1,560	1,250	18,465
Total Revenues	<u>5,199</u>	<u>1,560</u>	<u>1,250</u>	<u>18,467</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Conservation, environment, recreation, and agriculture	3,542	708	1,002	19,409
Capital outlay	332	-	-	430
Total Expenditures	<u>3,874</u>	<u>708</u>	<u>1,002</u>	<u>19,839</u>
Excess of Revenues over (under) Expenditures	<u>1,326</u>	<u>852</u>	<u>248</u>	<u>(1,371)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issues	-	-	-	-
Operating transfers from other funds	10,000	-	-	-
Operating transfers to other funds	(37)	(4)	(5)	(130)
Total Other Financing Sources (Uses)	<u>9,963</u>	<u>(4)</u>	<u>(5)</u>	<u>(130)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	11,289	848	243	(1,501)
Fund Balances - Beginning of fiscal year - restated	64,898	3,829	21,765	8,340
Equity transfers from other funds	-	-	-	-
Fund Balances - End of fiscal year	<u>\$ 76,188</u>	<u>\$ 4,677</u>	<u>\$ 22,008</u>	<u>\$ 6,839</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	BOTTLE DEPOSITS FUND	TOTALS	
				FISCAL YEARS ENDED	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
REVENUES					
Taxes	\$ 57,454	\$ -	\$ -	\$ 57,587	\$ 60,466
From federal agencies	-	-	-	2,810	2,611
From licenses and permits	-	-	-	84,693	81,028
Miscellaneous	487	64	19,694	119,493	112,340
Total Revenues	57,940	64	19,694	264,583	256,445
EXPENDITURES					
Current:					
General government	898	2,379	-	3,277	2,787
Conservation, environment, recreation, and agriculture	6,991	-	19,015	179,599	183,261
Capital outlay	-	-	-	30,705	27,761
Total Expenditures	7,888	2,379	19,015	213,580	213,809
Excess of Revenues over (under) Expenditures	50,052	(2,315)	679	51,003	42,636
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issues	-	-	-	91,198	-
Operating transfers from other funds	4,000	1,444	1,134	35,285	42,997
Operating transfers to other funds	(34,122)	-	(96)	(52,465)	(42,800)
Total Other Financing Sources (Uses)	(30,122)	1,444	1,037	74,018	198
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	19,930	(871)	1,716	125,021	42,834
Fund Balances - Beginning of fiscal year - restated	(50,575)	(4,165)	53,455	455,949	413,116
Equity transfers from other funds	-	-	33,218	33,218	-
Fund Balances - End of fiscal year	\$ (30,644)	\$ (5,036)	\$ 88,390	\$ 614,188	\$ 455,949

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF 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, 1998
(In Thousands)

Statutory/Budgetary Basis	GAME AND FISH PROTECTION FUND			MICHIGAN STATE WATERWAYS FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 133	\$ 133	\$ -
From federal agencies	1,784	1,784	-	581	581	-
From licenses and permits	45,942	45,942	-	5,797	5,797	-
Miscellaneous	2,094	2,094	-	4,083	4,083	-
Operating transfers in	3,915	3,915	-	14,309	14,309	-
Total Revenues and Other Sources	53,735	53,735	-	24,902	24,902	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	51,161	48,687	2,474	28,514	24,240	4,274
Total Expenditures, Operating Transfers Out, and Encumbrances	51,161	48,687	2,474	28,514	24,240	4,274
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 2,574	5,048	\$ 2,474	\$ (3,612)	662	\$ 4,274
Reconciling Items:						
Encumbrances at September 30		768			2,868	
Funds not annually budgeted		-			-	
Net Reconciling Items		768			2,868	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		5,816			3,529	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		20,109			46,506	
Equity transfers from other funds		-			-	
Ending balances (GAAP Basis)		\$ 25,924			\$ 50,036	

STATE OF 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, 1998
(In Thousands)

Statutory/Budgetary Basis	MARINE SAFETY FUND			STATE PARK IMPROVEMENT FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	445	445	-	-	-	-
From licenses and permits	4,729	4,729	-	28,224	28,224	-
Miscellaneous	358	358	-	794	794	-
Operating transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	5,532	5,532	-	29,017	29,017	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	5,766	5,657	109	25,893	25,811	82
Total Expenditures, Operating Transfers Out, and Encumbrances	5,766	5,657	109	25,893	25,811	82
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (234)	(125)	\$ 109	\$ 3,124	3,206	\$ 82
Reconciling Items:						
Encumbrances at September 30		92			624	
Funds not annually budgeted		-			-	
Net Reconciling Items		92			624	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(33)			3,830	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		4,361			9,748	
Equity transfers from other funds		-			-	
Ending balances (GAAP Basis)		\$ 4,328			\$ 13,578	

STATE OF 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, 1998
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN NATURAL RESOURCES TRUST FUND			MICHIGAN NONGAME FISH AND WILDLIFE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	48,684	48,684	-	1,560	1,560	-
Operating transfers in	182	182	-	-	-	-
Total Revenues and Other Sources	<u>48,866</u>	<u>48,866</u>	<u>-</u>	<u>1,560</u>	<u>1,560</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	<u>41,239</u>	<u>40,059</u>	<u>1,179</u>	<u>861</u>	<u>829</u>	<u>32</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>41,239</u>	<u>40,059</u>	<u>1,179</u>	<u>861</u>	<u>829</u>	<u>32</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 7,627</u>	<u>8,807</u>	<u>\$ 1,179</u>	<u>\$ 699</u>	<u>731</u>	<u>\$ 32</u>
Reconciling Items:						
Encumbrances at September 30		4,173			117	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>4,173</u>			<u>117</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>12,980</u>			<u>848</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		200,969			3,829	
Equity transfers from other funds		-			-	
Ending balances (GAAP Basis)		<u>\$ 213,949</u>			<u>\$ 4,677</u>	

STATE OF 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, 1998
(In Thousands)

FUNDS NOT ANNUALLY BUDGETED

Statutory/Budgetary Basis	GAME AND FISH PROTECTION TRUST FUND	RECREATION BOND FUND- LOCAL PROJECTS	ENVIRONMENTAL PROTECTION BOND FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN CIVILIAN CONSERVATION CORPS ENDOWMENT FUND	FOREST DEVELOPMENT FUND
Statutory/Budgetary Basis	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	-	-	-	-	-	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	-	-	-	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	-	-	-	-	-	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	-	-	-
Reconciling Items:						
Encumbrances at September 30	-	-	-	-	-	-
Funds not annually budgeted	10,618	(1,686)	58,311	11,289	243	(1,501)
Net Reconciling Items	10,618	(1,686)	58,311	11,289	243	(1,501)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	10,618	(1,686)	58,311	11,289	243	(1,501)
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated	62,559	6,507	7,644	64,898	21,765	8,340
Equity transfers from other funds	-	-	-	-	-	-
Ending balances (GAAP Basis)	<u>\$ 73,177</u>	<u>\$ 4,822</u>	<u>\$ 65,955</u>	<u>\$ 76,188</u>	<u>\$ 22,008</u>	<u>\$ 6,839</u>

STATE OF 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, 1998
(In Thousands)

FUNDS NOT ANNUALLY BUDGETED

Statutory/Budgetary Basis	MICHIGAN UNDERGROUND TANK FINANCIAL ASSURANCE FUND	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	BOTTLE DEPOSITS FUND	TOTALS		
	ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 133	\$ 133	\$ -
From federal agencies	-	-	-	2,809	2,809	-
From licenses and permits	-	-	-	84,692	84,692	-
Miscellaneous	-	-	-	57,572	57,572	-
Operating transfers in	-	-	-	18,405	18,405	-
Total Revenues and Other Sources	-	-	-	163,612	163,612	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	-	-	-	153,434	145,283	8,150
Total Expenditures, Operating Transfers Out, and Encumbrances	-	-	-	153,434	145,283	8,150
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	\$ 10,178	18,328	\$ 8,150
Reconciling Items:						
Encumbrances at September 30	-	-	-		8,642	
Funds not annually budgeted	19,930	(871)	1,716		98,051	
Net Reconciling Items	19,930	(871)	1,716		106,693	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	19,930	(871)	1,716		125,021	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated	(50,575)	(4,165)	53,455		455,949	
Equity transfers from other funds	-	-	33,218		33,218	
Ending balances (GAAP Basis)	\$ (30,644)	\$ (5,036)	\$ 88,390		\$ 614,188	

STATE OF MICHIGAN
DESCRIPTIONS OF SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MICHIGAN EMPLOYMENT SECURITY ACT -- ADMINISTRATION FUND

Public Act 1 of 1936 (Extra Session) created this fund to account for administrative costs of the Unemployment Agency and the Employment Services Agency. Effective February 6, 1998, the Department of Consumer & Industry Services administers the Unemployment Agency and the Michigan Jobs Commission administers the Employment Services Agency. The fund derives most of its revenue from federal grants. It also receives transfers from the Michigan Employment Security Act Contingent Fund (an expendable trust fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from trust funds accumulated from employer premium payments. These activities are reported in the Michigan Unemployment Compensation Fund (an expendable trust fund).

SAFETY EDUCATION AND TRAINING FUND

Public Act 154 of 1974, as amended, imposes an annual levy on each insurance carrier licensed to do workers' disability compensation business in the State and on each self-insured employer. Public Act 24 of 1977 provided for the establishment of the Safety Education and Training Fund to receive these assessments for support of the Department of Consumer and Industry Service's Safety Education and Training Division.

UNINSURED EMPLOYERS' SECURITY FUND

Under P.A. 198 of 1993, this fund succeeded to all assets of the former Workplace Health and Safety Fund, which was comprised of two subfunds. The subfund equity which represented the previous Uninsured Employers' Security account now constitutes the equity of this surviving fund. The subfund equity of the previous Workplace Health and Safety account (\$24.6m) was transferred during 1995-96 to the School Aid Fund where it financed appropriations for payments to school districts. The fund equity has been appropriated for workers' compensation benefits to employees injured on or after June 29, 1990 (and for related claims administration), where their employer failed to provide coverage for them.

STATE CONSTRUCTION CODE FUND

The State Construction Code Fund was created by P.A. 371 of 1980. Fees received for building permit applications and other funds collected under this act are appropriated by the Legislature for the operation of the Department of Consumer and Industry Service's Bureau of Construction Codes and related indirect overhead expenditures.

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

The Homeowner Construction Lien Recovery Fund was established by P.A. 497 of 1980 to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid despite filing a residential lien. The fund is self-sustaining and is financed by fees assessed on builders, electrical and plumbing contractors, and laborers.

STATE CASINO GAMING FUND

This fund was created by P.A. 69 of 1997 to provide for the licensing, regulation and control of casino gaming activities in Michigan. The 5-member gaming control board is vested with the authority for licensing, regulating, and controlling casino gaming operations; manufacturers and distributors of gaming equipment and supplies; and persons who participate in gaming. Activities financed by casino gaming revenue are legally restricted for specific purposes.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	UNINSURED EMPLOYERS' SECURITY FUND	STATE CONSTRUCTION CODE FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ -	\$ -
Equity in Common Cash	-	3,935	22,863	13,327
Amounts due from federal agencies	16,432	-	-	-
Amounts due from local units	155	-	-	-
Other current assets	561	2	-	54
Total Current Assets	17,147	3,937	22,863	13,380
 Total Assets	\$ 17,147	\$ 3,937	\$ 22,863	\$ 13,380
 LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 549	\$ 36	\$ 17	\$ 32
Accounts payable and other liabilities	15,868	398	38	434
Amounts due to other funds	725	1	2	56
Deferred revenue	6	-	-	-
Total Current Liabilities	17,147	435	57	522
 Total Liabilities	17,147	435	57	522
 Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	-	-	-
Restricted revenues	-	517	-	6,653
Multi-year projects	-	-	22,806	-
Total Reserved	-	517	22,806	6,653
 Unreserved	-	2,985	-	6,206
 Total Fund Balances	-	3,502	22,806	12,859
 Total Liabilities and Fund Balances	\$ 17,147	\$ 3,937	\$ 22,863	\$ 13,380

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 SEPTEMBER 30, 1998
 (In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	STATE CASINO GAMING FUND	TOTALS	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ -	54
Equity in Common Cash	97	-	40,221	47,917
Amounts due from federal agencies	-	-	16,432	4,224
Amounts due from local units	-	-	155	1,019
Other current assets	-	-	617	237
Total Current Assets	97	-	57,424	53,451
 Total Assets	\$ 97	\$ -	\$ 57,424	53,451
 LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 2	\$ 1	\$ 637	530
Accounts payable and other liabilities	82	1,156	17,976	14,570
Amounts due to other funds	-	4,379	5,162	1,191
Deferred revenue	-	-	6	1,734
Total Current Liabilities	84	5,536	23,781	18,024
 Total Liabilities	84	5,536	23,781	18,024
 Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	1,724	1,724	-
Restricted revenues	2	549	7,721	2,314
Multi-year projects	-	1,151	23,957	23,270
Total Reserved	2	3,425	33,402	25,584
 Unreserved	11	(8,961)	241	9,843
 Total Fund Balances	13	(5,536)	33,643	35,427
 Total Liabilities and Fund Balances	\$ 97	\$ -	\$ 57,424	53,451

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION <u>FUND</u>	SAFETY EDUCATION AND TRAINING <u>FUND</u>	UNINSURED EMPLOYERS' SECURITY FUND	STATE CONSTRUCTION CODE FUND
REVENUES				
From federal agencies	\$ 130,580	\$ -	\$ -	\$ -
From local agencies	154	-	-	-
From licenses and permits	-	-	-	12,113
Miscellaneous	<u>290</u>	<u>5,226</u>	<u>1,347</u>	<u>660</u>
Total Revenues	<u>131,024</u>	<u>5,226</u>	<u>1,347</u>	<u>12,774</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Labor, commerce, and regulatory	143,872	4,866	1,808	8,173
Capital outlay	-	-	-	-
Debt service:				
Capital lease payments	<u>976</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>144,847</u>	<u>4,866</u>	<u>1,808</u>	<u>8,173</u>
Excess of Revenues over (under) Expenditures	<u>(13,824)</u>	<u>360</u>	<u>(461)</u>	<u>4,601</u>
OTHER FINANCING SOURCES (USES)				
Capital lease acquisitions	2,257	-	-	-
Operating transfers from other funds	14,352	-	-	-
Operating transfers to other funds	<u>(2,785)</u>	<u>(35)</u>	<u>(4)</u>	<u>(69)</u>
Total Other Financing Sources (Uses)	<u>13,824</u>	<u>(35)</u>	<u>(4)</u>	<u>(69)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	324	(464)	4,531
Fund Balances - Beginning of fiscal year	-	3,178	23,270	8,327
Equity transfers from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - End of fiscal year	<u>\$ -</u>	<u>\$ 3,502</u>	<u>\$ 22,806</u>	<u>\$ 12,859</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		TOTALS	
			FISCAL YEARS ENDED	
			STATE CASINO GAMING FUND	SEPTEMBER 30, 1998
REVENUES				
From federal agencies	\$ -	\$ -	\$ 130,580	\$ 140,523
From local agencies	-	-	154	1,922
From licenses and permits	-	-	12,113	10,072
Miscellaneous	413	1,462	9,398	9,044
Total Revenues	413	1,462	152,245	161,561
EXPENDITURES				
Current:				
General government	-	7,388	7,388	-
Labor, commerce, and regulatory	1,046	-	159,765	174,563
Capital outlay	-	-	-	2
Debt service:				
Capital lease payments	-	-	976	783
Total Expenditures	1,046	7,388	168,128	175,349
Excess of Revenues over (under) Expenditures	(633)	(5,926)	(15,883)	(13,788)
OTHER FINANCING SOURCES (USES)				
Capital lease acquisitions	-	-	2,257	642
Operating transfers from other funds	-	-	14,352	17,263
Operating transfers to other funds	(6)	(93)	(2,992)	(3,623)
Total Other Financing Sources (Uses)	(6)	(93)	13,617	14,282
Excess of Revenues and Other Source over (under) Expenditures and Other Uses	(639)	(6,018)	(2,266)	494
Fund Balances - Beginning of fiscal year	652	-	35,427	34,933
Equity transfers from other funds	-	482	482	-
Fund Balances - End of fiscal year	\$ 13	\$ (5,536)	\$ 33,643	\$ 35,427

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-
SPECIAL REVENUE FUNDS-REGULATORY AND ADMINISTRATIVE RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND			SAFETY EDUCATION AND TRAINING FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
From federal agencies	\$ 130,580	\$ 130,580	\$ -	\$ -	\$ -	\$ -
From local agencies	154	154	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	290	290	-	5,226	5,226	-
Operating transfers in	14,352	14,352	-	-	-	-
Total Revenues and Other Sources	<u>145,375</u>	<u>145,375</u>	<u>-</u>	<u>5,226</u>	<u>5,226</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Consumer and Industry Services	145,375	145,375	-	4,902	4,902	-
Treasury	-	-	-	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>145,375</u>	<u>145,375</u>	<u>-</u>	<u>4,902</u>	<u>4,902</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 324</u>	<u>324</u>	<u>\$ -</u>
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		-			<u>324</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		-			3,178	
Equity transfers from other funds		-			-	
Ending balances (GAAP Basis)		<u>\$ -</u>			<u>\$ 3,502</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-
SPECIAL REVENUE FUNDS-REGULATORY AND ADMINISTRATIVE RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	STATE CONSTRUCTION CODE FUND			HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From local agencies	-	-	-	-	-	-
From licenses and permits	12,113	12,113	-	-	-	-
Miscellaneous	660	660	-	413	413	-
Operating transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	<u>12,774</u>	<u>12,774</u>	<u>-</u>	<u>413</u>	<u>413</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Consumer and Industry Services	8,242	8,242	-	1,052	1,052	-
Treasury	-	-	-	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>8,242</u>	<u>8,242</u>	<u>-</u>	<u>1,052</u>	<u>1,052</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 4,531</u>	<u>4,531</u>	<u>\$ -</u>	<u>\$ (639)</u>	<u>(639)</u>	<u>\$ -</u>
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>-</u>			<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>4,531</u>			<u>(639)</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		8,327			652	
Equity transfers from other funds		-			-	
Ending balances (GAAP Basis)		<u>\$ 12,859</u>			<u>\$ 13</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL-
SPECIAL REVENUE FUNDS-REGULATORY AND ADMINISTRATIVE RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	STATE CASINO GAMING FUND			FUND NOT ANNUALLY BUDGETED	TOTALS		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	UNINSURED EMPLOYERS' SECURITY FUND ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES							
From federal agencies	\$ -	\$ -	\$ -	\$ -	\$ 130,580	\$ 130,580	\$ -
From local agencies	-	-	-	-	154	154	-
From licenses and permits	-	-	-	-	12,113	12,113	-
Miscellaneous	1,462	1,462	-	-	8,051	8,051	-
Operating transfers in	-	-	-	-	14,352	14,352	-
Total Revenues and Other Sources	1,462	1,462	-	-	165,250	165,250	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY							
Consumer and Industry Services	-	-	-	-	159,571	159,571	-
Treasury	10,922	9,205	1,717	-	10,922	9,205	1,717
Total Expenditures, Operating Transfers Out, and Encumbrances	10,922	9,205	1,717	-	170,493	168,776	1,717
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (9,460)	(7,743)	\$ 1,717	-	\$ (5,243)	(3,526)	\$ 1,717
Reconciling Items:							
Encumbrances at September 30		1,724		-		1,724	
Funds not annually budgeted		-		(464)		(464)	
Net Reconciling Items		1,724		(464)		1,260	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(6,018)		(464)		(2,266)	
FUND BALANCES (GAAP BASIS)							
Beginning balances		-		23,270		35,427	
Equity transfers from other funds		482		-		482	
Ending balances (GAAP Basis)		\$ (5,536)		\$ 22,806		\$ 33,643	

STATE OF MICHIGAN
DESCRIPTIONS OF SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, which is commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession and high unemployment. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note #3 to the General Purpose Financial Statements.

MICHIGAN VETERANS' TRUST FUND

This fund was created by P.A. 9 of 1946 (First Extra Session) to finance programs to assist veterans and their beneficiaries. The fund is governed by a seven member board of trustees. Resources are provided by investment and common cash earnings and by transfers from the General Fund. Expenditures and transfers out reflect grants to veterans and their widows or dependents and administrative costs at both the State and local level. The fund is administered within the Department of Military and Veterans Affairs.

SCHOOL AID FUND

This fund was created in 1955 by an amendment to the 1908 Constitution. Its continued existence was provided for by the 1963 Constitution. Its purpose is to aid in the support of the public schools and the intermediate school districts of the state. Payments of aid to school districts are based on a statutory formula.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

SCHOOL BOND LOAN FUND

Article 9, Section 16, of the State Constitution and P.A. 74 of 1955 authorized the issuance of State general obligation bonds to provide funds for loans to school districts. Loans are made for the payment of principal and interest on school district bonds under prescribed circumstances. The proceeds of State bonds are credited to the fund as an "Other Financing Source." When loans are made, operating transfers are recorded to the General Fund, which receives loan payments and provides financing for debt service. The loans receivable are recorded as assets in the General Fund.

CHILDREN'S TRUST FUND

The Children's Trust Fund was established by P.A. 249 of 1982 to support the State Child Abuse and Neglect Prevention Board. Established under P.A. 250 of 1982, the purpose of the board is to coordinate and fund activities for the prevention of child abuse and neglect in the State. The fund is administered within the Family Independence Agency.

Revenues are derived from taxpayer donations made on the individual's income tax return, other gifts, interest earnings, and grants from the federal government. One half of the donations made on income tax returns are placed in a trust corpus. When the total assets of the fund exceed \$20 million, the earnings credited to the fund will be available for disbursement. Until that time, the amount available for disbursement is limited to 1/2 of tax refund designations, all additional donations and grants, and interest earnings credited to the fund in previous years.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	MICHIGAN VETERANS' TRUST FUND	SCHOOL AID FUND
ASSETS			
Current Assets:			
Cash	\$ -	\$ -	\$ -
Equity in Common Cash	1,000,536	8,380	-
Taxes, interest, and penalties receivable	-	-	717,489
Amounts due from other funds	-	-	-
Amounts due from federal agencies	-	-	650
Amounts due from local units	-	175	8,291
Other current assets	-	488	139
Total Current Assets	1,000,536	9,044	726,569
Taxes, interest, and penalties receivable	-	-	11,024
Amounts due from local units	-	-	624
Investments	-	44,577	-
Total Assets	\$ 1,000,536	\$ 53,621	\$ 738,217
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 24	\$ 290
Accounts payable and other liabilities	-	480	89,567
Amounts due to other funds	-	6	363,050
Amounts due to component units	-	66	-
Total Current Liabilities	-	575	452,906
Long-Term Liabilities:			
Deferred revenue	-	-	11,024
Total Liabilities	-	575	463,930
Fund Balances:			
Reserves for:			
Budgetary carry-forwards:			
Encumbrances	-	1	-
Restricted revenues	-	-	899
Funds held as permanent investments	-	50,000	-
Noncurrent assets	-	-	624
Total Reserved	-	50,001	1,522
Unreserved	1,000,536	3,045	272,764
Total Fund Balances	1,000,536	53,046	274,287
Total Liabilities and Fund Balances	\$ 1,000,536	\$ 53,621	\$ 738,217

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

			TOTALS	
	SCHOOL BOND LOAN FUND	CHILDREN'S TRUST FUND	SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ -	\$ 3
Equity in Common Cash	120,838	3,188	1,132,943	696,407
Taxes, interest, and penalties receivable	-	-	717,489	655,137
Amounts due from other funds	-	-	-	488,412
Amounts due from federal agencies	-	-	650	664
Amounts due from local units	-	-	8,466	15,576
Other current assets	-	50	678	796
Total Current Assets	120,838	3,238	1,860,226	1,856,995
Taxes, interest, and penalties receivable	-	-	11,024	10,111
Amounts due from local units	-	-	624	860
Investments	-	4,329	48,906	50,331
Total Assets	\$ 120,838	\$ 7,567	\$ 1,920,779	\$ 1,918,296
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 34	\$ 347	\$ 804
Accounts payable and other liabilities	-	93	90,139	34,946
Amounts due to other funds	-	-	363,056	443,178
Amounts due to component units	-	-	66	66
Total Current Liabilities	-	126	453,608	478,994
Long-Term Liabilities:				
Deferred revenue	-	-	11,024	10,111
Total Liabilities	-	126	464,632	489,104
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	-	-	1	1
Restricted revenues	-	-	899	572,557
Funds held as permanent investments	-	6,767	56,767	57,828
Noncurrent assets	-	-	624	860
Total Reserved	-	6,767	58,291	631,246
Unreserved	120,838	674	1,397,857	797,946
Total Fund Balances	120,838	7,441	1,456,148	1,429,192
Total Liabilities and Fund Balances	\$ 120,838	\$ 7,567	\$ 1,920,779	\$ 1,918,296

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	MICHIGAN VETERANS' TRUST FUND	SCHOOL AID FUND
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ -	\$ -	\$ 8,180,324
From federal agencies	-	-	84,675
Miscellaneous	<u>60,131</u>	<u>4,550</u>	<u>17,121</u>
Total Revenues	<u>60,131</u>	<u>4,550</u>	<u>8,282,120</u>
EXPENDITURES			
Current:			
General government	-	-	29,400
Education	-	-	9,369,487
Family Independence services	-	-	-
Public safety and corrections	<u>-</u>	<u>3,709</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>3,709</u>	<u>9,398,887</u>
Excess of Revenues over (under) Expenditures	<u>60,131</u>	<u>841</u>	<u>(1,116,766)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Bond Issues	-	-	-
Operating transfers from:			
State Lottery Fund	-	-	616,110
Other funds	<u>-</u>	<u>-</u>	<u>587,968</u>
Total operating transfers from other funds	-	-	1,204,078
Operating transfers to other funds	<u>(212,000)</u>	<u>(49)</u>	<u>(6,950)</u>
Total Other Financing Sources (Uses)	<u>(212,000)</u>	<u>(49)</u>	<u>1,197,128</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(151,869)</u>	<u>792</u>	<u>80,362</u>
Fund Balances - Beginning of fiscal year - restated	<u>1,152,406</u>	<u>52,254</u>	<u>193,925</u>
Fund Balances - End of fiscal year	<u>\$ 1,000,536</u>	<u>\$ 53,046</u>	<u>\$ 274,287</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

			TOTALS	
	SCHOOL BOND LOAN FUND	CHILDREN'S TRUST FUND	FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
REVENUES				
Taxes	\$ -	\$ -	\$ 8,180,324	\$ 7,731,469
From federal agencies	-	599	85,274	70,961
Miscellaneous	-	1,530	83,332	97,235
Total Revenues	-	2,129	8,348,931	7,899,665
EXPENDITURES				
Current:				
General government	608	-	30,008	-
Education	-	-	9,369,487	8,605,644
Family Independence services	-	1,653	1,653	1,597
Public safety and corrections	-	-	3,709	3,604
Total Expenditures	608	1,653	9,404,857	8,610,845
Excess of Revenues over (under) Expenditures	(608)	476	(1,055,927)	(711,180)
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issues	160,256	-	160,256	-
Operating transfers from:				
State Lottery Fund	-	-	616,110	587,733
Other funds	-	10	587,978	278,033
Total operating transfers from other funds	-	10	1,204,088	865,766
Operating transfers to other funds	(62,453)	(10)	(281,462)	(124,635)
Total Other Financing Sources (Uses)	97,803	-	1,082,883	741,131
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	97,195	476	26,956	29,951
Fund Balances - Beginning of fiscal year - restated	23,643	6,965	1,429,192	1,399,241
Fund Balances - End of fiscal year	\$ 120,838	\$ 7,441	\$ 1,456,148	\$ 1,429,192

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND			MICHIGAN VETERANS' TRUST FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
From federal agencies	-	-	-	-	-	-
Miscellaneous	60,131	60,131	-	4,550	4,550	-
Operating transfers in	-	-	-	-	-	-
Total Revenues and Other Sources	<u>60,131</u>	<u>60,131</u>	<u>-</u>	<u>4,550</u>	<u>4,550</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Management and Budget	212,000	212,000	-	-	-	-
Education	-	-	-	-	-	-
Treasury	-	-	-	-	-	-
Family Independence Agency	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	4,692	3,759	934
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>212,000</u>	<u>212,000</u>	<u>-</u>	<u>4,692</u>	<u>3,759</u>	<u>934</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (151,869)</u>	<u>(151,869)</u>	<u>\$ -</u>	<u>\$ (142)</u>	<u>791</u>	<u>\$ 934</u>
Reconciling Items:						
Encumbrances at September 30		-			1	
Funds not annually budgeted		-			-	
Net Reconciling Items		<u>-</u>			<u>1</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>(151,869)</u>			<u>792</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		<u>1,152,406</u>			<u>52,254</u>	
Ending balances (GAAP Basis)		<u>\$ 1,000,536</u>			<u>\$ 53,046</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	SCHOOL AID FUND			CHILDREN'S TRUST FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	\$ 8,183,924	\$ 8,180,324	\$ (3,600)	\$ -	\$ -	\$ -
From federal agencies	84,675	84,675	-	599	599	-
Miscellaneous	17,121	17,121	-	1,530	1,530	-
Operating transfers in	<u>1,204,078</u>	<u>1,204,078</u>	<u>-</u>	<u>10</u>	<u>10</u>	<u>-</u>
Total Revenues and Other Sources	<u>9,489,798</u>	<u>9,486,198</u>	<u>(3,600)</u>	<u>2,140</u>	<u>2,140</u>	<u>-</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Management and Budget	-	-	-	-	-	-
Education	9,392,652	9,376,436	16,216	-	-	-
Treasury	29,400	29,400	-	-	-	-
Family Independence Agency	-	-	-	1,664	1,664	-
Military and Veterans Affairs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>9,422,052</u>	<u>9,405,836</u>	<u>16,216</u>	<u>1,664</u>	<u>1,664</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ 67,746</u>	<u>80,362</u>	<u>\$ 12,616</u>	<u>\$ 476</u>	<u>476</u>	<u>\$ -</u>
Reconciling Items:						
Encumbrances at September 30		-			-	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>-</u>			<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>80,362</u>			<u>476</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances - restated		<u>193,925</u>			<u>6,965</u>	
Ending balances (GAAP Basis)		<u>\$ 274,287</u>			<u>\$ 7,441</u>	

STATE OF MICHIGAN
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

Statutory/Budgetary Basis	FUND NOT ANNUALLY BUDGETED	SCHOOL BOND LOAN FUND	TOTALS	
	ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES				
Taxes	\$ -	\$ 8,183,924	\$ 8,180,324	\$ (3,600)
From federal agencies	-	85,274	85,274	-
Miscellaneous	-	83,332	83,332	-
Operating transfers in	-	<u>1,204,088</u>	<u>1,204,088</u>	-
Total Revenues and Other Sources	-	<u>9,556,619</u>	<u>9,553,019</u>	<u>(3,600)</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY				
Management and Budget	-	212,000	212,000	-
Education	-	9,392,652	9,376,436	16,216
Treasury	-	29,400	29,400	-
Family Independence Agency	-	1,664	1,664	-
Military and Veterans Affairs	-	<u>4,692</u>	<u>3,759</u>	<u>934</u>
Total Expenditures, Operating Transfers Out, and Encumbrances	-	<u>9,640,409</u>	<u>9,623,259</u>	<u>17,149</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	<u>\$ (83,790)</u>	<u>(70,241)</u>	<u>\$ 13,549</u>
Reconciling Items:				
Encumbrances at September 30	-		1	
Funds not annually budgeted	<u>97,195</u>		<u>97,195</u>	
Net Reconciling Items	<u>97,195</u>		<u>97,196</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	<u>97,195</u>		<u>26,956</u>	
FUND BALANCES (GAAP BASIS)				
Beginning balances - restated	<u>23,643</u>		<u>1,429,192</u>	
Ending balances (GAAP Basis)	<u>\$ 120,838</u>		<u>\$ 1,456,148</u>	

STATE OF MICHIGAN
DESCRIPTIONS OF DEBT SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for transportation purposes by Article 9, Section 9, of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND

Public Act 329 of 1966 established this fund to account for the retiring of bond issues of the Water Pollution Control Bond Fund. The Legislature appropriates funds from the General Fund to meet the bond principal and interest requirements and paying agent fees.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Article 9, Section 9, of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

This fund was established pursuant to P.A. 326 and 327 of 1988 to service bond issues of the Recreation Bond Fund-Local Projects, Recreation Bond Fund-State Projects, and the Environmental Protection Bond Fund. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund.

SCHOOL LOAN BOND REDEMPTION FUND

Public Act 74 of 1955 established this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans. The Legislature appropriates funds from the General Fund to meet principal and interest requirements and paying agents fees.

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment.

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

MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY

The Michigan Underground Storage Tank Financial Assurance Finance Authority was created by P.A. 132 of 1993 to provide financing for the activities of the Michigan Underground Storage Tank Financial Assurance Fund, including short or long-term debt instruments. The Authority is governed by a five member board of directors.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS				
Current Assets:				
Equity in Common Cash	\$ 13	\$ -	\$ -	\$ -
Investments	-	-	-	-
Other current assets	-	-	-	-
Total Current Assets	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments	-	-	-	-
Total Assets	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 13	\$ -	\$ -	\$ -
Amounts due to other funds	-	-	-	-
Total Current Liabilities	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS					
Current Assets:					
Equity in Common Cash	\$ -	\$ -	\$ 4,982	\$ 4,995	\$ -
Investments	-	214,173	34,677	248,850	191,522
Other current assets	-	1,062	93	1,155	1,392
Total Current Assets	-	215,235	39,752	255,000	192,914
Investments	-	30,226	-	30,226	38,449
Total Assets	\$ -	\$ 245,461	\$ 39,752	\$ 285,226	\$ 231,363
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable and other liabilities	\$ -	\$ 164	\$ 10	\$ 187	\$ 1,257
Amounts due to other funds	-	247	1,055	1,302	4,126
Total Current Liabilities	-	411	1,065	1,489	5,383
Total Liabilities	-	411	1,065	1,489	5,383
Fund Balances:					
Unreserved	-	245,050	38,687	283,737	225,981
Total Fund Balances	-	245,050	38,687	283,737	225,981
Total Liabilities and Fund Balances	\$ -	\$ 245,461	\$ 39,752	\$ 285,226	\$ 231,363

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

FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND	COMBINED TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES				
Miscellaneous	\$ 1	\$ -	\$ -	\$ -
Total Revenues	1	-	-	-
EXPENDITURES				
Current:				
General government	-	-	-	-
Education	-	-	-	-
Debt Service:				
Bond principal retirement	28,580	5,000	9,990	20,366
Bond interest and fiscal charges	32,747	144	13,086	23,007
Total Expenditures	61,327	5,144	23,076	43,373
Excess of Revenues over (under) Expenditures	(61,326)	(5,144)	(23,075)	(43,373)
OTHER FINANCING SOURCES (USES)				
Proceeds from refunding bond issue	381,586	-	39,641	-
Payment to refunded bond escrow agent	(379,837)	-	(39,641)	-
Operating transfers from other funds	59,577	5,144	23,076	43,373
Operating transfers to other funds	(1)	-	-	-
Total Other Financing Sources (Uses)	61,326	5,144	23,075	43,373
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	-	-
Fund Balances - Beginning of fiscal year	-	-	-	-
Equity transfers to other funds	-	-	-	-
Fund Balances - End of fiscal year	\$ -	\$ -	\$ -	\$ -

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	MICHIGAN UNDERGROUND STORAGE TANK FINANCIAL ASSURANCE FINANCE AUTHORITY	TOTALS	
				FISCAL YEARS ENDED	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
REVENUES					
Miscellaneous	\$ -	\$ 22,954	\$ 2,201	\$ 25,156	\$ 10,103
Total Revenues	-	22,954	2,201	25,156	10,103
EXPENDITURES					
Current:					
General government	-	-	750	750	1,299
Education	-	502	-	502	-
Debt Service:					
Bond principal retirement	5,775	103,560	12,395	185,666	161,608
Bond interest and fiscal charges	9,525	93,616	11,439	183,562	172,199
Total Expenditures	15,300	197,678	24,583	370,481	335,107
Excess of Revenues over (under) Expenditures	(15,300)	(174,724)	(22,382)	(345,325)	(325,004)
OTHER FINANCING SOURCES (USES)					
Proceeds from refunding bond issue	-	-	-	421,227	22,437
Payment to refunded bond escrow agent	-	-	-	(419,478)	(22,437)
Operating transfers from other funds	15,300	226,840	33,825	407,136	351,641
Operating transfers to other funds	-	(285)	(5,518)	(5,804)	(3,973)
Total Other Financing Sources (Uses)	15,300	226,556	28,307	403,081	347,669
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	51,831	5,925	57,756	22,665
Fund Balances - Beginning of fiscal year	-	193,219	32,762	225,981	203,477
Equity transfers to other funds	-	-	-	-	(161)
Fund Balances - End of fiscal year	\$ -	\$ 245,050	\$ 38,687	\$ 283,737	\$ 225,981

STATE OF MICHIGAN
DESCRIPTIONS OF CAPITAL PROJECTS FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

RECREATION BOND FUND - STATE PROJECTS

This fund was established in 1988 and operates under Part 715 of P.A. 451 of 1994, as amended. The balances remaining in this fund reflect proceeds and investment earnings remaining from \$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. The act specifies that the proceeds of these bonds be used to construct, expand, and develop recreational facilities at State parks.

STATE BUILDING AUTHORITY ADVANCE FINANCING FUND

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

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

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of State equipment. The five members of the Authority are appointees of the Governor.

This capital projects fund, which accounts for the construction of State projects, certain equipment financing, and higher education related projects, reports bond proceeds as an "Other financing source," investment revenue during construction as "miscellaneous revenue," and construction expenditures as "capital outlay," "grant expenditures," or "operating transfers out." Short-term borrowings to provide temporary financing are recorded as fund liabilities if they have not been refinanced with long-term debt prior to financial statement preparation. Operating transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service during construction, reimbursements of expenditures to the State Building Authority Advance Financing Fund, transfers to component unit State universities for amounts expended in their plant funds, and the transfer of net assets remaining after the completion of a project to the debt service fund. In the State's General Fixed Assets Account Group, accumulated expenditures for incomplete State projects are reflected as "Construction in progress" and completed State projects are recorded as "Buildings."

STATE OF MICHIGAN
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	RECREATION BOND FUND- STATE PROJECTS	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	STATE BUILDING AUTHORITY	TOTALS	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS					
Current Assets:					
Equity in Common Cash	\$ 5,321	\$ -	\$ -	\$ 5,321	5,450
Amounts due from other funds	-	63,065	6,324	69,388	59,722
Amounts due from component units	-	1,524	-	1,524	8,575
Amounts due from federal agencies	-	28	-	28	-
Amounts due from local units	-	1,849	-	1,849	2,064
Investments	-	-	136,558	136,558	39,611
Other current assets	-	37	1,101	1,138	242
Total Current Assets	<u>5,321</u>	<u>66,501</u>	<u>143,983</u>	<u>215,806</u>	<u>115,663</u>
Total Assets	<u>\$ 5,321</u>	<u>\$ 66,501</u>	<u>\$ 143,983</u>	<u>\$ 215,806</u>	<u>115,663</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ -	\$ 626	\$ -	\$ 626	10,409
Accounts payable and other liabilities	85	60,424	155	60,664	60,562
Amounts due to other funds	-	36,777	63,069	99,846	182,854
Amounts due to component units	-	11,762	-	11,762	31,755
Bonds and notes payable	-	-	180,146	180,146	287,940
Interest payable	-	-	2,042	2,042	-
Deferred revenue	-	14	-	14	89
Total Current Liabilities	<u>85</u>	<u>109,602</u>	<u>245,412</u>	<u>355,099</u>	<u>573,609</u>
Total Liabilities	<u>85</u>	<u>109,602</u>	<u>245,412</u>	<u>355,099</u>	<u>573,609</u>
Fund Balances:					
Reserves for:					
Construction and debt service	-	-	15,610	15,610	9,459
Total Reserved	<u>-</u>	<u>-</u>	<u>15,610</u>	<u>15,610</u>	<u>9,459</u>
Unreserved	<u>5,236</u>	<u>(43,101)</u>	<u>(117,038)</u>	<u>(154,903)</u>	<u>(467,405)</u>
Total Fund Balances	<u>5,236</u>	<u>(43,101)</u>	<u>(101,429)</u>	<u>(139,293)</u>	<u>(457,946)</u>
Total Liabilities and Fund Balances	<u>\$ 5,321</u>	<u>\$ 66,501</u>	<u>\$ 143,983</u>	<u>\$ 215,806</u>	<u>115,663</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	RECREATION BOND FUND- STATE PROJECTS	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	STATE BUILDING AUTHORITY	TOTALS	
				FISCAL YEARS ENDED	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
REVENUES					
From federal agencies	\$ -	\$ 28	\$ -	\$ 28	\$ 6
Miscellaneous	288	-	8,287	8,575	5,258
Total Revenues	288	28	8,287	8,603	5,264
EXPENDITURES					
Current:					
Education	-	15,395	10,519	25,914	100,157
Capital outlay	435	24,524	32,473	57,432	117,930
Total Expenditures	435	39,919	42,992	83,346	218,087
Excess of Revenues over (under) Expenditures	(147)	(39,891)	(34,705)	(74,744)	(212,823)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issues	-	-	488,094	488,094	223,238
Operating transfers from other funds	-	152,836	-	152,836	33,373
Operating transfers to other funds	(2)	(1,455)	(166,286)	(167,743)	(39,627)
Operating transfers to component units	-	-	(79,791)	(79,791)	(70,142)
Total Other Financing Sources (Uses)	(2)	151,381	242,017	393,396	146,841
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(149)	111,490	207,312	318,653	(65,982)
Fund Balances - Beginning of fiscal year	5,385	(154,591)	(308,741)	(457,946)	(392,125)
Equity transfer from other funds	-	-	-	-	161
Fund Balances - End of fiscal year	\$ 5,236	\$ (43,101)	\$ (101,429)	\$ (139,293)	\$ (457,946)

STATE OF MICHIGAN
DESCRIPTIONS OF ENTERPRISE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

LIQUOR PURCHASE REVOLVING FUND

The Liquor Purchase Revolving Fund was authorized by P.A. 259 of 1941. The Department of Consumer and Industry Services, Liquor Control Commission is primarily responsible for the fund. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the "net income" of the fund is transferred to the General Fund in accordance with P.A. 431 of 1984.

STATE LOTTERY FUND

Public Act 239 of 1972 established the State Lottery Fund and created a Bureau of State Lottery under authority of Article 5, Section 4 of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1990-91. Net income of the fund related to lottery operations is transferred to the School Aid Fund and net income related to bingo and charity games regulation is transferred to the General Fund. Beginning in fiscal year 1997-98 and as restated for fiscal year 1996-97, the remaining unreserved fund balance represents the unrealized gain on investments, as required by GASB Statement No. 31.

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

DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND

Public Act 107 of 1979 provided for creation of a fund to account for the administration of the publication of the department's magazine, publications, and related materials. Direct administrative costs are appropriated and recorded in the fund. Beginning October 1, 1997, these activities were accounted for in the General Fund. Accordingly, an equity transfer was made from the General Fund to eliminate this fund's deficit and to close the fund.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	TOTALS <u>SEPTEMBER 30,</u> <u>1998</u>	<u>SEPTEMBER 30,</u> <u>1997</u> <u>(RESTATED*)</u>
ASSETS				
Current Assets:				
Cash	\$ 1,637	\$ 2	\$ 1,638	\$ 1,177
Equity in Common Cash	52,504	23,607	76,111	62,362
Inventories	5,065	2,341	7,406	15,108
Investments	-	129,647	129,647	122,105
Securities Lending Collateral	-	580,741	580,741	413,205
Other current assets	1,430	45,925	47,355	49,173
Total Current Assets	<u>60,636</u>	<u>782,262</u>	<u>842,899</u>	<u>663,130</u>
Advances to other funds	-	-	-	1,448
Investments	-	1,069,287	1,069,287	1,015,678
Property, plant, and equipment:				
Land	98	-	98	98
Buildings and equipment	2,415	10,444	12,859	13,573
Allowance for depreciation	(1,712)	(9,257)	(10,969)	(11,139)
Total property, plant, and equipment	<u>801</u>	<u>1,187</u>	<u>1,988</u>	<u>2,532</u>
Total Assets	<u>\$ 61,437</u>	<u>\$ 1,852,736</u>	<u>\$ 1,914,173</u>	<u>\$ 1,682,788</u>
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Warrants outstanding	\$ 5,478	\$ 2,281	\$ 7,759	\$ 8,056
Obligations under security lending	-	580,741	580,741	413,205
Accounts payable and other liabilities	42,240	173,454	215,694	206,157
Amounts due to other funds	53	78	131	1,199
Deferred revenue	489	-	489	17
Total Current Liabilities	<u>48,261</u>	<u>756,554</u>	<u>804,815</u>	<u>628,633</u>
Long-Term Liabilities:				
Advances from other funds	-	-	-	1,448
Prize awards payable	-	924,848	924,848	954,877
Other long-term liabilities	-	1,697	1,697	1,872
Total Liabilities	<u>48,261</u>	<u>1,683,098</u>	<u>1,731,359</u>	<u>1,586,830</u>
Fund Equity:				
Retained earnings - unreserved	<u>13,176</u>	<u>169,638</u>	<u>182,814</u>	<u>95,958</u>
Total Fund Equity	<u>13,176</u>	<u>169,638</u>	<u>182,814</u>	<u>95,958</u>
Total Liabilities and Fund Equity	<u>\$ 61,437</u>	<u>\$ 1,852,736</u>	<u>\$ 1,914,173</u>	<u>\$ 1,682,788</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

				TOTALS	
				FISCAL YEARS ENDED	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND		
OPERATING REVENUES					
Operating revenues	\$ 499,855	\$ 1,694,121	\$ -	\$ 2,193,976	\$ 2,109,348
Total Operating Revenues	499,855	1,694,121	-	2,193,976	2,109,348
OPERATING EXPENSES					
Salaries, wages, and other administrative	12,293	185,586	-	197,878	197,976
Depreciation	75	612	-	688	1,134
Purchases for resale	394,069	-	-	394,069	366,435
Lottery prize awards	-	892,674	-	892,674	866,458
Premiums and claims	-	-	-	-	1
Other operating expenses	658	89	-	747	1,141
Total Operating Expenses	407,095	1,078,961	-	1,486,055	1,433,146
Operating Income (Loss)	92,760	615,160	-	707,920	676,202
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	8,846	-	-	8,846	8,256
Interest revenue	2,421	4,263	-	6,683	4,799
Investment revenue (net)	-	190,494	-	190,494	124,185
Other nonoperating revenues	219	-	-	219	210
Amortization of prize award obligation discount	-	(75,928)	-	(75,928)	(76,522)
Interest expense	-	(24,496)	-	(24,496)	(20,106)
Other nonoperating expenses	(63)	-	-	(63)	-
Total Nonoperating Revenues (Expenses)	11,423	94,333	-	105,756	40,821
Income (Loss) Before Operating Transfers	104,183	709,493	-	813,676	717,024
OPERATING TRANSFERS					
Operating transfers to:					
School Aid Fund	-	(616,110)	-	(616,110)	(587,733)
Other funds	(104,183)	(7,976)	-	(112,159)	(105,842)
Total operating transfers to other funds	(104,183)	(624,086)	-	(728,269)	(693,575)
Total Operating Transfers In (Out)	(104,183)	(624,086)	-	(728,269)	(693,575)
Net Income (Loss)	-	85,407	-	85,407	23,448
Retained Earnings - Beginning of fiscal year - restated	13,176	84,231	(1,449)	95,958	72,510
Equity transfers from other funds	-	-	1,449	1,449	-
Retained Earnings - End of fiscal year	\$ 13,176	\$ 169,638	\$ -	\$ 182,814	\$ 95,958

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND	TOTALS	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ 92,760	\$ 615,160	\$ -	\$ 707,920	\$ 676,202
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	75	612	-	688	1,134
Interest (nonprogram) and investment income	-	-	-	-	1
Other adjustments	208	-	-	208	9
Changes in assets and liabilities:					
Amounts due from other funds	1,448	-	(1,448)	-	13
Inventories	7,063	638	-	7,702	17,354
Other assets	(1,193)	3,062	-	1,869	(5,482)
Accounts payable and other liabilities	3,435	(100,029)	-	(96,594)	(3,498)
Amounts due to other funds	(1,031)	(37)	-	(1,068)	814
Deferred revenue	472	-	-	472	17
Net cash provided (used) by operating activities	<u>\$ 103,238</u>	<u>\$ 519,408</u>	<u>\$ (1,449)</u>	<u>\$ 621,197</u>	<u>\$ 686,566</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Specific tax on spirits	\$ 8,846	\$ -	\$ -	\$ 8,846	\$ 8,256
Operating transfers to other funds	(104,183)	(624,086)	-	(728,269)	(693,575)
Equity transfers from other funds	-	-	1,449	1,449	-
Net cash provided (used) by noncapital financing activities	<u>\$ (95,337)</u>	<u>\$ (624,086)</u>	<u>\$ 1,449</u>	<u>\$ (717,974)</u>	<u>\$ (685,319)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ -	\$ (207)	\$ -	\$ (207)	\$ (355)
Proceeds from sale of property, plant, and equipment	11	-	-	11	2,464
Net cash provided (used) by capital and related financing activities	<u>\$ 11</u>	<u>\$ (207)</u>	<u>\$ -</u>	<u>\$ (196)</u>	<u>\$ 2,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	\$ -	\$ (22,126)	\$ -	\$ (22,126)	\$ (109,716)
Proceeds from sale and maturities of investment securities	-	125,876	-	125,876	116,684
Interest and dividends on investments	2,421	4,211	-	6,632	4,799
Proceeds from securities lending activities	-	25,592	-	25,592	20,774
Expenses from securities lending activities	-	(24,496)	-	(24,496)	(20,106)
Net cash provided (used) by investing activities	<u>\$ 2,421</u>	<u>\$ 109,057</u>	<u>\$ -</u>	<u>\$ 111,478</u>	<u>\$ 12,435</u>
Net cash provided (used) - all activities	\$ 10,333	\$ 4,173	\$ -	\$ 14,506	\$ 15,792
Cash and cash equivalents at beginning of year	38,330	17,155	-	55,485	39,692
Cash and cash equivalents at end of year	<u>\$ 48,662</u>	<u>\$ 21,327</u>	<u>\$ -</u>	<u>\$ 69,990</u>	<u>\$ 55,484</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per balance sheet classifications:					
Cash	\$ 1,637	\$ 2	\$ -	\$ 1,638	\$ 1,177
Equity in common cash	52,504	23,607	-	76,111	62,362
Warrants outstanding	(5,478)	(2,281)	-	(7,759)	(8,056)
Cash and cash equivalents at end of year	<u>\$ 48,662</u>	<u>\$ 21,327</u>	<u>\$ -</u>	<u>\$ 69,990</u>	<u>\$ 55,484</u>

STATE OF MICHIGAN
DESCRIPTIONS OF INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

CORRECTIONAL INDUSTRIES REVOLVING FUND

This fund was created by P.A. 210 of 1935 and continued by P.A. 15 of 1968 to account for the financial transactions of a manufacturing and processing industry, employing inmates of the State's correctional institutions. Public Act 245 of 1980 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, and certain tax exempt organizations.

Public Act 205 of 1986 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. Executive Order 1992-13 required that for the fiscal year ending September 30, 1992, the payment must equal this fund's "available" cash, which resulted in a larger than scheduled repayment. As a result, no payment was required for fiscal year 1997-98.

MOTOR TRANSPORT FUND

This fund was created by P.A. 260 of 1947 and continued by P.A. 431 of 1984 to provide vehicle and travel services for State agencies. Activities include lease, purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short term usage. The Motor Transport Division vehicles are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are charged by Motor Transport Division on a monthly basis.

OFFICE SERVICES REVOLVING FUND

Created by P.A. 262 of 1952, this fund provides services in the following areas: printing, reproduction, microfilm, mailing, distribution of federal and state surplus property and materials management. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment.

INFORMATION TECHNOLOGY REVOLVING FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. The cost of providing services is charged to the user agencies.

RISK MANAGEMENT FUND

This fund was administratively established to account for certain centralized risk management functions performed by the Department of Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the General Long Term Obligations Account Group and the related current year workers' compensation expenditures are recorded in the applicable funds.

STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the State sponsored insurance plans which provide health, long-term disability, life, vision, and dental coverage for participating employees and retirees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis. A note to the general purpose financial statements entitled "Risk Management" provides additional information about this fund.

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

STATE OF MICHIGAN
COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND
ASSETS				
Current Assets:				
Cash	\$ -	\$ -	\$ 6	\$ -
Equity in Common Cash	-	-	-	-
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	-	-	-	-
Inventories	12,824	245	1,999	-
Other current assets	468	14,427	333	120
Total Current Assets	<u>13,292</u>	<u>14,672</u>	<u>2,339</u>	<u>120</u>
Advances to other funds	-	-	-	-
Property, plant, and equipment:				
Buildings and equipment	36,211	23,364	19,476	123,187
Allowance for depreciation	(16,554)	(14,578)	(8,113)	(54,379)
Construction in progress	2,676	-	-	-
Total property, plant, and equipment	<u>22,333</u>	<u>8,786</u>	<u>11,363</u>	<u>68,808</u>
Other noncurrent assets	<u>-</u>	<u>955</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 35,625</u>	<u>\$ 24,413</u>	<u>\$ 13,702</u>	<u>\$ 68,929</u>
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Warrants outstanding	\$ 404	\$ 163	\$ 599	\$ 616
Accounts payable and other liabilities	1,292	2,223	3,102	11,043
Amounts due to other funds	80	6,186	407	4,419
Bonds and notes payable	-	-	-	10,128
Deferred revenue	-	736	5	410
Total Current Liabilities	<u>1,776</u>	<u>9,308</u>	<u>4,113</u>	<u>26,616</u>
Long-Term Liabilities:				
Advances from other funds	10,318	-	-	21,727
Bonds and notes payable	-	-	-	17,558
Other long-term liabilities	954	431	3,575	2,091
Total Liabilities	<u>13,048</u>	<u>9,739</u>	<u>7,687</u>	<u>67,991</u>
Fund Equity:				
Contributed Capital:				
From other funds	1,464	8,444	-	-
Total Contributed Capital	<u>1,464</u>	<u>8,444</u>	<u>-</u>	<u>-</u>
Retained earnings - unreserved	<u>21,114</u>	<u>6,230</u>	<u>6,015</u>	<u>937</u>
Total Fund Equity	<u>22,578</u>	<u>14,675</u>	<u>6,015</u>	<u>937</u>
Total Liabilities and Fund Equity	<u>\$ 35,625</u>	<u>\$ 24,413</u>	<u>\$ 13,702</u>	<u>\$ 68,929</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS				
Current Assets:				
Cash	\$ -	\$ 9	\$ 15	\$ 1
Equity in Common Cash	11,229	89,670	100,899	201,183
Amounts due from other funds	-	28,956	28,956	24,649
Amounts due from federal agencies	-	-	-	12
Inventories	-	-	15,069	16,732
Other current assets	898	2,959	19,206	15,912
Total Current Assets	12,127	121,594	164,145	258,489
Advances to other funds	-	22,119	22,119	21,412
Property, plant, and equipment:				
Buildings and equipment	4	303	202,546	185,035
Allowance for depreciation	(4)	(303)	(93,931)	(76,987)
Construction in progress	-	-	2,676	2,676
Total property, plant, and equipment	-	-	111,290	110,724
Other noncurrent assets	-	74,424	75,379	69,846
 Total Assets	\$ 12,127	\$ 218,137	\$ 372,934	\$ 460,470
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Warrants outstanding	\$ 10	\$ 963	\$ 2,755	\$ 1,999
Accounts payable and other liabilities	2,144	90,347	110,151	106,019
Amounts due to other funds	4	-	11,095	8,901
Bonds and notes payable	-	-	10,128	9,606
Deferred revenue	61	-	1,211	1,454
Total Current Liabilities	2,218	91,309	135,340	127,979
Long-Term Liabilities:				
Advances from other funds	-	-	32,045	30,950
Bonds and notes payable	-	-	17,558	27,686
Other long-term liabilities	4,085	85,186	96,321	101,038
Total Liabilities	6,303	176,495	281,264	287,652
Fund Equity:				
Contributed Capital:				
From other funds	-	-	9,908	9,818
Total Contributed Capital	-	-	9,908	9,818
Retained earnings - unreserved	5,824	41,642	81,762	162,999
Total Fund Equity	5,824	41,642	91,670	172,818
 Total Liabilities and Fund Equity	\$ 12,127	\$ 218,137	\$ 372,934	\$ 460,470

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

	<u>CORRECTIONAL INDUSTRIES REVOLVING FUND</u>	<u>MOTOR TRANSPORT FUND</u>	<u>OFFICE SERVICES REVOLVING FUND</u>	<u>INFORMATION TECHNOLOGY REVOLVING FUND</u>
OPERATING REVENUES	<u>\$ 29,445</u>	<u>\$ 47,271</u>	<u>\$ 56,793</u>	<u>\$ 94,880</u>
OPERATING EXPENSES:				
Salaries, wages, and other administrative	13,285	5,770	20,228	71,894
Depreciation	1,323	944	1,377	17,804
Purchases for resale	-	-	33,293	-
Purchases for prison industries	12,620	-	-	-
Premiums and claims	-	712	112	-
Unpaid claim expense adjustment	-	-	-	-
Other operating expenses:				
Leased vehicles expense	-	27,267	-	-
Vehicle maintenance expense	-	18,232	-	-
Total other operating expenses	<u>-</u>	<u>45,499</u>	<u>-</u>	<u>-</u>
 Total Operating Expenses	 <u>27,229</u>	 <u>52,926</u>	 <u>55,011</u>	 <u>89,699</u>
 Operating Income (Loss)	 <u>2,217</u>	 <u>(5,655)</u>	 <u>1,781</u>	 <u>5,181</u>
NONOPERATING REVENUES (EXPENSES):				
Other nonoperating revenues	-	-	54	-
Interest expense	(388)	-	(182)	(1,108)
Other nonoperating expense	<u>(412)</u>	<u>(22)</u>	<u>-</u>	<u>(229)</u>
 Total Nonoperating Revenues (Expenses)	 <u>(800)</u>	 <u>(22)</u>	 <u>(127)</u>	 <u>(1,336)</u>
 Income (Loss) Before Operating Transfers	 <u>1,417</u>	 <u>(5,677)</u>	 <u>1,654</u>	 <u>3,845</u>
OPERATING TRANSFERS:				
Operating transfers to other funds	<u>(273)</u>	<u>(25)</u>	<u>(33)</u>	<u>-</u>
 Total Operating Transfers In (Out)	 <u>(273)</u>	 <u>(25)</u>	 <u>(33)</u>	 <u>-</u>
 Net Income (Loss)	 1,144	 (5,702)	 1,621	 3,845
Retained Earnings - Beginning of fiscal year	<u>19,970</u>	<u>11,897</u>	<u>4,429</u>	<u>(2,908)</u>
Equity transfer from other funds	-	35	-	-
Equity transfer to other funds	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>-</u>
 Retained Earnings - End of fiscal year	 <u>\$ 21,114</u>	 <u>\$ 6,230</u>	 <u>\$ 6,015</u>	 <u>\$ 937</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

	RISK MANAGEMENT FUND	STATE SPONSORED GROUP INSURANCE FUND	FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
OPERATING REVENUES	<u>\$ 1,548</u>	<u>\$ 518,009</u>	<u>\$ 747,945</u>	<u>\$ 757,166</u>
OPERATING EXPENSES:				
Salaries, wages, and other administrative	1,057	34,193	146,428	135,050
Depreciation	-	-	21,449	16,876
Purchases for resale	-	-	33,293	33,961
Purchases for prison industries	-	-	12,620	11,362
Premiums and claims	2,139	564,287	567,250	558,468
Unpaid claim expense adjustment	-	-	-	(4,958)
Other operating expenses:				
Leased vehicles expense	-	-	27,267	25,577
Vehicle maintenance expense	-	-	18,232	16,355
Total other operating expenses	<u>-</u>	<u>-</u>	<u>45,499</u>	<u>41,932</u>
 Total Operating Expenses	 <u>3,196</u>	 <u>598,480</u>	 <u>826,540</u>	 <u>792,692</u>
 Operating Income (Loss)	 <u>(1,648)</u>	 <u>(80,471)</u>	 <u>(78,595)</u>	 <u>(35,525)</u>
NONOPERATING REVENUES (EXPENSES):				
Other nonoperating revenues	-	-	54	678
Interest expense	-	-	(1,677)	(621)
Other nonoperating expense	-	-	(663)	(2,116)
 Total Nonoperating Revenues (Expenses)	 <u>-</u>	 <u>-</u>	 <u>(2,286)</u>	 <u>(2,059)</u>
 Income (Loss) Before Operating Transfers	 <u>(1,648)</u>	 <u>(80,471)</u>	 <u>(80,880)</u>	 <u>(37,585)</u>
OPERATING TRANSFERS:				
Operating transfers to other funds	<u>-</u>	<u>(26)</u>	<u>(357)</u>	<u>(461)</u>
 Total Operating Transfers In (Out)	 <u>-</u>	 <u>(26)</u>	 <u>(357)</u>	 <u>(461)</u>
 Net Income (Loss)	 <u>(1,648)</u>	 <u>(80,497)</u>	 <u>(81,237)</u>	 <u>(38,045)</u>
Retained Earnings - Beginning of fiscal year	<u>7,472</u>	<u>122,139</u>	<u>162,999</u>	<u>201,045</u>
Equity transfer from other funds	-	-	35	-
Equity transfer to other funds	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>-</u>
Retained Earnings - End of fiscal year	<u><u>\$ 5,824</u></u>	<u><u>\$ 41,642</u></u>	<u><u>\$ 81,762</u></u>	<u><u>\$ 162,999</u></u>

STATE OF MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	MOTOR TRANSPORT FUND	OFFICE SERVICES REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 2,217	\$ (5,655)	\$ 1,781	\$ 5,181
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	1,323	944	1,377	17,804
Interest (nonprogram) and investment income	(727)	-	112	-
Changes in assets and liabilities:				
Amounts due from other funds	-	-	-	-
Amounts due from federal agencies	-	-	-	12
Inventories	1,557	15	91	-
Other assets	(94)	(3,528)	27	(75)
Accounts payable and other liabilities	(213)	997	1,267	3,595
Amounts due to other funds	(39)	6,152	308	(4,205)
Deferred revenue	-	(200)	(66)	90
Net cash provided (used) by operating activities	<u>\$ 4,024</u>	<u>\$ (1,274)</u>	<u>\$ 4,897</u>	<u>\$ 22,403</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Loans or loan repayments from other funds	\$ (3,651)	\$ -	\$ -	\$ 4,746
Operating transfers to other funds	(273)	(25)	(33)	-
Equity transfers from other funds	-	35	-	-
Equity transfers to other funds	-	-	(35)	-
Net cash provided (used) by noncapital financing activities	<u>\$ (3,923)</u>	<u>\$ 10</u>	<u>\$ (68)</u>	<u>\$ 4,746</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes	\$ -	\$ -	\$ -	\$ -
Acquisition and construction of capital assets	(491)	(630)	(5,306)	(16,777)
Principal paid on bond and loan maturities	-	-	-	(9,606)
Capital lease payments (including imputed interest expense)	-	-	(182)	(1,108)
Proceeds from sale of property, plant, and equipment	-	800	88	7
Net cash provided (used) by capital and related financing activities	<u>\$ (491)</u>	<u>\$ 170</u>	<u>\$ (5,399)</u>	<u>\$ (27,484)</u>
Net cash provided (used) - all activities	\$ (390)	\$ (1,093)	\$ (570)	\$ (335)
Cash and cash equivalents at beginning of year	(14)	930	(23)	(281)
Cash and cash equivalents at end of year	<u>\$ (404)</u>	<u>\$ (163)</u>	<u>\$ (593)</u>	<u>\$ (616)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Per balance sheet classifications:				
Cash	\$ -	\$ -	\$ 6	\$ -
Equity in common cash	-	-	-	-
Warrants outstanding	(404)	(163)	(599)	(616)
Cash and cash equivalents at end of year	<u>\$ (404)</u>	<u>\$ (163)</u>	<u>\$ (593)</u>	<u>\$ (616)</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Cost of capital assets acquisitions financed by capital leases or contributed by other funds	\$ 90	\$ -	\$ 1,232	\$ 393
Increase in contributed capital	(90)	-	-	-
Gain (loss) on disposal of capital assets	-	(96)	-	-
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ (96)</u>	<u>\$ 1,232</u>	<u>\$ 393</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

		STATE SPONSORED GROUP INSURANCE FUND	TOTALS	
RISK MANAGEMENT FUND	\$	\$	SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,648)	\$ (80,471)	\$ (78,595)	\$ (35,525)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	-	21,449	16,876
Interest (nonprogram) and investment income	-	-	(615)	(84)
Changes in assets and liabilities:				
Amounts due from other funds	-	(5,014)	(5,014)	36,735
Amounts due from federal agencies	-	-	12	(12)
Inventories	-	-	1,663	1,828
Other assets	(863)	(4,294)	(8,827)	(6,503)
Accounts payable and other liabilities	1,188	(7,420)	(586)	14,677
Amounts due to other funds	-	(22)	2,195	(30,550)
Deferred revenue	(67)	-	(242)	1,029
Net cash provided (used) by operating activities	<u>\$ (1,391)</u>	<u>\$ (97,221)</u>	<u>\$ (68,561)</u>	<u>\$ (1,528)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Loans or loan repayments from other funds	\$ -	\$ -	\$ 1,095	\$ (4,344)
Operating transfers to other funds	-	(26)	(357)	(461)
Equity transfers from other funds	-	-	35	-
Equity transfers to other funds	-	-	(35)	-
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>	<u>\$ (26)</u>	<u>\$ 738</u>	<u>\$ (4,805)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes	\$ -	\$ -	\$ -	\$ 38,460
Acquisition and construction of capital assets	-	-	(23,204)	(18,504)
Principal paid on bond and loan maturities	-	-	(9,606)	(1,168)
Capital lease payments (including imputed interest expense)	-	-	(1,289)	(351)
Proceeds from sale of property, plant, and equipment	-	-	896	1,495
Net cash provided (used) by capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,203)</u>	<u>\$ 19,932</u>
Net cash provided (used) - all activities	\$ (1,391)	\$ (97,247)	\$ (101,026)	\$ 13,599
Cash and cash equivalents at beginning of year	<u>12,610</u>	<u>185,962</u>	<u>199,185</u>	<u>185,586</u>
Cash and cash equivalents at end of year	<u>\$ 11,220</u>	<u>\$ 88,716</u>	<u>\$ 98,159</u>	<u>\$ 199,185</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Per balance sheet classifications:				
Cash	\$ -	\$ 9	\$ 15	\$ 1
Equity in common cash	11,229	89,670	100,899	201,183
Warrants outstanding	(10)	(963)	(2,755)	(1,999)
Cash and cash equivalents at end of year	<u>\$ 11,220</u>	<u>\$ 88,716</u>	<u>\$ 98,159</u>	<u>\$ 199,185</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Cost of capital assets acquisitions financed by capital leases or contributed by other funds	\$ -	\$ -	\$ 1,715	\$ 710
Increase in contributed capital	-	-	(90)	-
Gain (loss) on disposal of capital assets	-	-	(96)	-
Total noncash investing, capital, and financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,530</u>	<u>\$ 710</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 1998
 (In Thousands)

	EXPENDABLE TRUST FUNDS	PENSION TRUST FUNDS**	AGENCY FUNDS	TOTALS	
				SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
ASSETS					
Current Assets:					
Cash	\$ 86	\$ 2,356	\$ 1,594	\$ 4,036	\$ 2,554
Equity in Common Cash	175,757	153,208	6,167	335,132	338,844
Taxes, interest, and penalties receivable	126,034	-	-	126,034	141,825
Amounts due from other funds	9,207	13,519	-	22,726	36,929
Amounts due from component units	401	-	-	401	2,651
Amounts due from federal agencies	26,193	-	77	26,270	20,920
Amounts due from local units	19,326	-	-	19,326	17,797
Investments	2,489,561	2,268,960	25,469	4,783,990	6,198,788
Security lending collateral	-	1,746,544	-	1,746,544	1,481,131
Other current assets	44,803	320,196	5,478	370,477	380,228
Total Current Assets	<u>2,891,368</u>	<u>4,504,783</u>	<u>38,785</u>	<u>7,434,937</u>	<u>8,621,667</u>
Amounts due from local units	4,566	-	-	4,566	3,847
Investments	707,848	40,085,369	2,026,994	42,820,211	38,880,156
Property, plant, and equipment	-	-	-	-	2
Other noncurrent assets	53,921	-	376,656	430,577	427,798
Total Assets	<u>\$ 3,657,704</u>	<u>\$ 44,590,153</u>	<u>\$ 2,442,435</u>	<u>\$ 50,690,292</u>	<u>\$ 47,933,471</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 13,559	\$ 11,245	\$ 239	\$ 25,044	\$ 20,139
Accounts payable and other liabilities	101,754	119,391	27,670	248,814	706,474
Amounts due to other funds	11,690	1,617	-	13,308	7,469
Deferred revenue	6,981	210	-	7,191	9,008
Obligations under security lending	-	1,746,544	-	1,746,544	1,481,131
Total Current Liabilities	<u>133,985</u>	<u>1,879,008</u>	<u>27,909</u>	<u>2,040,901</u>	<u>2,224,221</u>
Long-Term Liabilities:					
Advances from other funds	12,377	-	-	12,377	9,670
Deferred revenue	166	-	-	166	262
Other long-term liabilities	7,870	-	2,414,527	2,422,397	2,004,381
Total Liabilities	<u>154,398</u>	<u>1,879,008</u>	<u>2,442,435</u>	<u>4,475,841</u>	<u>4,238,533</u>
Fund Balances:					
Reserved for Pension and Postemployment Health-care Benefits	-	42,711,145	-	42,711,145	40,454,493
Unreserved	3,503,306	-	-	3,503,306	3,240,446
Total Fund Balances	<u>3,503,306</u>	<u>42,711,145</u>	<u>-</u>	<u>46,214,451</u>	<u>43,694,938</u>
Total Liabilities and Fund Balances	<u>\$ 3,657,704</u>	<u>\$ 44,590,153</u>	<u>\$ 2,442,435</u>	<u>\$ 50,690,292</u>	<u>\$ 47,933,471</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

** The Combining Statement of Plan Net Assets has been converted to conform with a classified balance sheet.

STATE OF MICHIGAN
DESCRIPTIONS OF EXPENDABLE TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MICHIGAN UNEMPLOYMENT COMPENSATION FUND

The Michigan Unemployment Compensation Fund is administered by the Unemployment Agency within the Department of Consumer and Industry Services. The fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund (a special revenue fund).

MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND

The Michigan Employment Security Act Contingent Fund, which is administered under the supervision of the Director of Employment Security, was created by P.A. 535 of 1982 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. P.A. 224 of 1989 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

SECOND INJURY FUND

Public Act 317 of 1969, as amended, created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The fund is supervised by the administrator who is appointed by the fund's Board of Trustees. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers.

STATE EMPLOYEES' DEFERRED COMPENSATION FUND II (401K)

The State Employees' Deferred Compensation Fund II (401k) was administratively established to account for a deferred compensation plan which permits State employees to defer a portion of their income until future years. The plan is administered by the Department of Treasury, which has contracted the operation of the program to an investment firm. A footnote to the General Purpose Financial Statements, titled "Deferred Compensation Plans," includes additional information on the plan.

STATE OF MICHIGAN
DESCRIPTIONS OF EXPENDABLE TRUST FUNDS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

TRANSPORTATION RELATED TRUST FUNDS

The transportation related trust funds column reflects the activities of four sub-funds: the Special Federal Bridge Replacement Fund, the Federal County Road Fund, the Federal Urban Transportation System Fund, and the Highway Topics and Safety Program 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 local and 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 of this, the fund balances of these funds are usually zero.

The Special Federal Bridge Replacement Fund was established in conjunction with the Federal Highway Act of 1970, Section 144. This section was authorized by Congress to assist states in reconstructing or replacing roadway bridges which are found to be unsafe or obsolete.

The Federal County Road Fund was established in conjunction with the Federal Aid Highway Act of 1944. This act authorizes funds for projects on the secondary road system which are selected by the Michigan Department of Transportation in cooperation with county road commissions and the Bureau of Public Roads.

The Federal Urban Transportation System Fund was created to administer provisions of the Federal Highway Act of 1970, Section 106. The responsibility for administration of the act was placed in the Michigan Department of Transportation by Section 302(a) of Title 23, United States Code, and was authorized by section 7(m) of P.A. 286 of 1964. The principal objective of the fund is the improvement of urban highway systems in cooperation with local units of government.

The Highway Topics and Safety Program Fund was established in conjunction with the Federal Aid Highway Acts of 1968 and 1973. The objective of this program is to improve the safety and operating conditions of the existing street and road systems in urban areas.

MISCELLANEOUS TRUST ACCOUNTS FUND

This fund is used to report the transactions of several legally separated activities in which the State holds funds in a fiduciary manner. These activities include the following "funds": Vietnam Veterans' Memorial Monument; Children's Institute Trust; Escheats; Gifts, Bequests, and Deposits Investment; Silicosis, Dust Disease, and Logging Industry Compensation; Assigned Claims Plan; Agricultural College Fund - Morrill Act; Hospital Patients' Trust; Federal Housing Administration Mortgages Escrow; Self-Insurers' Security; Special Assessment Deferment; Urban Land Assembly Loan; Utility Consumer Representation; and Workers' Disability Compensation-Multiple Trust Funds.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	<u>MICHIGAN UNEMPLOYMENT COMPENSATION FUND</u>	<u>MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND</u>	<u>SECOND INJURY FUND</u>	<u>STATE EMPLOYEES' DEFERRED COMPENSATION FUND II (401K)</u>
ASSETS				
Current Assets:				
Cash	\$ 78	\$ -	\$ -	\$ -
Equity in Common Cash	-	83,648	30,228	-
Taxes, interest, and penalties receivable	126,034	-	-	-
Amounts due from other funds	883	882	-	-
Amounts due from component units	401	-	-	-
Amounts due from federal agencies	566	-	-	-
Amounts due from local units	11,652	-	-	-
Investments	2,427,970	-	-	56,066
Other current assets	17,567	-	173	16,567
Total Current Assets	<u>2,585,152</u>	<u>84,530</u>	<u>30,401</u>	<u>72,632</u>
Amounts due from local units	-	-	-	-
Investments	-	-	-	692,986
Other noncurrent assets	-	-	-	37,942
Total Assets	<u>\$ 2,585,152</u>	<u>\$ 84,530</u>	<u>\$ 30,401</u>	<u>\$ 803,560</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ 584	\$ -
Accounts payable and other liabilities	51,187	-	3,176	-
Amounts due to other funds	882	-	9	3,354
Deferred revenue	332	-	5,437	-
Total Current Liabilities	<u>52,402</u>	<u>-</u>	<u>9,206</u>	<u>3,354</u>
Long-Term Liabilities:				
Advances from other funds	-	-	-	-
Deferred revenue	-	-	-	-
Other long-term liabilities	-	-	-	-
Total Liabilities	<u>52,402</u>	<u>-</u>	<u>9,206</u>	<u>3,354</u>
Fund Balances:				
Unreserved	<u>2,532,751</u>	<u>84,530</u>	<u>21,194</u>	<u>800,206</u>
Total Fund Balances	<u>2,532,751</u>	<u>84,530</u>	<u>21,194</u>	<u>800,206</u>
Total Liabilities and Fund Balances	<u>\$ 2,585,152</u>	<u>\$ 84,530</u>	<u>\$ 30,401</u>	<u>\$ 803,560</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	TRANSPORTATION RELATED TRUST FUNDS	MISCELLANEOUS TRUST ACCOUNTS FUND	TOTALS <u>SEPTEMBER 30,</u> <u>1998</u>	<u>SEPTEMBER 30,</u> <u>1997</u> <u>(RESTATED*)</u>
ASSETS				
Current Assets:				
Cash	\$ -	\$ 8	\$ 86	\$ 665
Equity in Common Cash	-	61,881	175,757	185,868
Taxes, interest, and penalties receivable	-	-	126,034	141,825
Amounts due from other funds	-	7,442	9,207	9,527
Amounts due from component units	-	-	401	354
Amounts due from federal agencies	25,627	-	26,193	20,302
Amounts due from local units	7,052	622	19,326	17,797
Investments	-	5,525	2,489,561	2,353,548
Other current assets	1	10,495	44,803	33,222
Total Current Assets	<u>32,680</u>	<u>85,973</u>	<u>2,891,368</u>	<u>2,763,107</u>
Amounts due from local units	-	4,566	4,566	3,847
Investments	-	14,861	707,848	569,549
Other noncurrent assets	-	15,980	53,921	35,865
Total Assets	<u>\$ 32,680</u>	<u>\$ 121,380</u>	<u>\$ 3,657,704</u>	<u>\$ 3,372,368</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	\$ 5,155	\$ 7,820	\$ 13,559	\$ 5,757
Accounts payable and other liabilities	20,084	27,307	101,754	92,813
Amounts due to other funds	7,442	3	11,690	7,467
Deferred revenue	-	1,212	6,981	8,922
Total Current Liabilities	<u>32,680</u>	<u>36,342</u>	<u>133,985</u>	<u>114,959</u>
Long-Term Liabilities:				
Advances from other funds	-	12,377	12,377	9,670
Deferred revenue	-	166	166	262
Other long-term liabilities	-	7,870	7,870	7,032
Total Liabilities	<u>32,680</u>	<u>56,755</u>	<u>154,398</u>	<u>131,923</u>
Fund Balances:				
Unreserved	-	64,625	3,503,306	3,240,446
Total Fund Balances	<u>-</u>	<u>64,625</u>	<u>3,503,306</u>	<u>3,240,446</u>
Total Liabilities and Fund Balances	<u>\$ 32,680</u>	<u>\$ 121,380</u>	<u>\$ 3,657,704</u>	<u>\$ 3,372,368</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	<u>MICHIGAN UNEMPLOYMENT COMPENSATION FUND</u>	<u>MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND</u>	<u>SECOND INJURY FUND</u>	<u>STATE EMPLOYEES' DEFERRED COMPENSATION FUND II (401K)</u>
REVENUES				
Taxes	\$ 1,043,213	\$ -	\$ -	\$ -
From federal agencies	21,621	-	-	-
From local agencies	-	-	-	-
Miscellaneous	<u>161,479</u>	<u>17,313</u>	<u>23,612</u>	<u>104,682</u>
Total Revenues	<u>1,226,313</u>	<u>17,313</u>	<u>23,612</u>	<u>104,682</u>
EXPENDITURES				
Current:				
General government	-	-	-	35,347
Education	-	-	-	-
Family independence services	-	-	-	-
Public safety and corrections	-	-	-	-
Labor, commerce, and regulatory	1,018,018	-	24,409	-
Health services	-	-	-	-
Transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>1,018,018</u>	<u>-</u>	<u>24,409</u>	<u>35,347</u>
Excess of Revenues over (under) Expenditures	<u>208,295</u>	<u>17,313</u>	<u>(797)</u>	<u>69,335</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	-	-	-	-
Operating transfers to other funds	<u>-</u>	<u>(12,802)</u>	<u>(22)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(12,802)</u>	<u>(22)</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	208,295	4,511	(819)	69,335
Fund Balances - Beginning of fiscal year - restated	2,324,456	80,019	22,014	730,871
Operating transfers from other funds	-	-	-	-
Operating transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - End of fiscal year	<u>\$ 2,532,751</u>	<u>\$ 84,530</u>	<u>\$ 21,194</u>	<u>\$ 800,206</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

			TOTALS	
	TRANSPORTATION RELATED TRUST FUNDS	MISCELLANEOUS TRUST ACCOUNTS FUND	FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
REVENUES				
Taxes	\$ -	\$ -	\$ 1,043,213	\$ 1,162,999
From federal agencies	96,043	-	117,664	134,503
From local agencies	30,044	-	30,044	24,950
Miscellaneous	23	132,981	440,090	586,637
	126,111	132,981	1,631,012	1,909,089
EXPENDITURES				
Current:				
General government	-	58,439	93,786	135,669
Education	-	-	-	1
Family independence services	-	-	-	5
Public safety and corrections	-	28,962	28,962	20,941
Labor, commerce, and regulatory	-	12,607	1,055,034	1,018,831
Health services	-	3,342	3,342	3,092
Transportation	132,650	-	132,650	130,941
	132,650	103,349	1,313,774	1,309,481
Excess of Revenues over (under) Expenditures	(6,539)	29,632	317,238	599,608
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	6,543	-	6,543	2,577
Operating transfers to other funds	(4)	(48,094)	(60,921)	(66,494)
	6,539	(48,094)	(54,378)	(63,917)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(18,462)	262,860	535,691
Fund Balances - Beginning of fiscal year - restated	-	83,086	3,240,446	2,704,755
Inter-fund transfers from other funds	-	994	994	-
Inter-fund transfers to other funds	-	(994)	(994)	-
	-	(994)	(994)	-
Fund Balances - End of fiscal year	\$ -	\$ 64,625	\$ 3,503,306	\$ 3,240,446

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
DESCRIPTIONS OF PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

Additional Pension Trust Fund information regarding plan membership, benefits and funding requirements may be found in the footnote to the financial statements entitled "Pension Benefits and Other Postemployment Benefits."

LEGISLATIVE RETIREMENT FUND

The Legislative Retirement System (LRS) was created by P.A. 261 of 1957 to provide retirement allowances, survivors' allowances, and other benefits for members of the Legislature and the presiding officers and their surviving spouses or children. Participants in the system have a deduction from each salary payment to partly finance the fund. In addition, legislative appropriations, interest on fund investments, and court fees complete the financing.

Public Act 486 of 1996 amended the LRS enabling legislation to provide that members elected after March 31, 1997, participate in the State's defined contribution plan. Under this act sitting legislators were given the option to remain in the LRS, a defined benefit plan, or to transfer to the new defined contribution plan, which resulted in 22 transfers.

STATE POLICE RETIREMENT FUND

This fund was created by P.A. 251 of 1935 which was superseded by P.A. 182 of 1986 to provide retirement benefits for State Police officers. It is administered by a nine member board under the direction of a chairperson elected from the membership. Financing is provided by investment income and by an annual legislative appropriation.

STATE EMPLOYEES' RETIREMENT FUND

This fund was established by P.A. 240 of 1943 and is administered by a nine member board under the direction of an Executive Secretary. Public Act 216 of 1974 eliminated the requirement for member contributions and provided for financing by legislative appropriation and investment earnings.

Effective March 31, 1997, P.A. 487 of 1996 closed the plan to new entrants. All new employees become members of the State's defined contribution plan. Employees hired before that date were given the option to choose whether to remain in the defined benefit plan or to transfer to the new defined contribution plan, which resulted in over 3000 transfers. The public act also allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

In accordance with P.A. 300 of 1980, on October 1, 1981, the Public School Employees' Chapter I Retirement Fund was merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement Fund. The two original funds were created by Public Acts 136 of 1945 and 259 of 1974, respectively. Administrative policy is governed by an eight member board.

Financing for the fund is provided by employer contributions and investment earnings. Under P.A. 91 of 1985, additional amounts may be contributed by employees to a "member investment plan."

JUDGES' RETIREMENT FUND

Public Act 234 of 1992 authorized the merger of the Probate Judges' Retirement Fund into the Judges' Retirement Fund by requiring the consolidation of all assets, rights and obligations under the former Judges' and Probate Judges' Retirement Funds. The consolidated fund is administered by the Judges' Retirement Board, with the director of the Office of Retirement Systems as the Executive Secretary. Financing is from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

Public Act 523 of 1996, which was effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND

This fund was established by P.A. 487 of 1996 as a defined contribution pension plan for all state employees hired after March 31, 1997, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, and Legislative Retirement System who elected to transfer to this plan. The State Treasurer is the administrator of the fund and is authorized to employ or contract with technical and professional personnel necessary to fulfill his fiduciary role.

STATE OF MICHIGAN
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND	STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND
ASSETS				
Cash	\$ -	\$ -	\$ 169	\$ 2,184
Equity in Common Cash	-	7,242	22,600	123,367
Receivables:				
Employee	-	-	-	-
Employer	44	-	3,690	107,793
Interest and dividends	797	3,987	37,659	131,569
Due from other funds	-	876	9,289	-
Due from component units	-	-	-	-
Sale of investments	1,379	687	6,432	22,147
Total receivables	<u>2,220</u>	<u>5,550</u>	<u>57,070</u>	<u>261,509</u>
Investments at fair value:				
Short term investments	-	48,084	357,099	1,801,893
Bonds, notes, mortgages, and preferred stock	65,015	238,137	2,277,869	7,716,701
Common stock	86,782	479,149	4,511,882	15,499,470
Real estate	-	78,970	758,056	2,544,813
Alternative investments	-	86,320	816,096	2,804,466
International investments	-	39,823	375,821	1,294,860
Mutual funds	-	-	-	-
Pooled investment funds	-	-	-	-
Total investments	<u>151,797</u>	<u>970,483</u>	<u>9,096,824</u>	<u>31,662,204</u>
Securities lending collateral	-	40,345	380,747	1,311,830
Property, plant, and equipment:				
Buildings and equipment	-	-	6	18
Allowance for depreciation	-	-	(6)	(18)
Total property, plant, and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>154,017</u>	<u>1,023,620</u>	<u>9,557,409</u>	<u>33,361,094</u>
LIABILITIES				
Warrants outstanding	41	234	2,939	7,956
Accounts payable and other liabilities	630	1,527	14,459	102,407
Amounts due to other funds	800	-	-	-
Deferred revenue	-	-	-	207
Obligations under security lending	-	40,345	380,747	1,311,830
Total liabilities	<u>1,472</u>	<u>42,106</u>	<u>398,144</u>	<u>1,422,400</u>
Net assets held in trust for pension and postemployment health-care benefits	<u>\$ 152,545</u>	<u>\$ 981,513</u>	<u>\$ 9,159,264</u>	<u>\$ 31,938,694</u>
Reconciliation of net assets held in trust:				
Pension benefits (a schedule of funding progress for each plan is presented in Note 11)	\$ 152,101	\$ 977,054	\$ 9,083,657	\$ 31,795,731
Postemployment health-care benefits	444	4,460	75,608	142,963
Total net assets held in trust for benefits	<u>\$ 152,545</u>	<u>\$ 981,513</u>	<u>\$ 9,159,264</u>	<u>\$ 31,938,694</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
 SEPTEMBER 30, 1998
 (In Thousands)

	JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	TOTALS	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS				
Cash	\$ 3	\$ -	\$ 2,356	\$ -
Equity in Common Cash	-	-	153,208	148,094
Receivables:				
Employee	-	2,123	2,123	208
Employer	264	-	111,791	108,090
Interest and dividends	1,390	-	175,402	187,432
Due from other funds	-	3,354	13,519	27,401
Due from component units	-	-	-	2,297
Sale of investments	233	-	30,879	44,122
Total receivables	1,888	5,477	333,715	369,551
Investments at fair value:				
Short term investments	11,561	50,323	2,268,960	3,431,154
Bonds, notes, mortgages, and preferred stock	82,097	-	10,379,820	10,272,173
Common stock	165,157	-	20,742,440	19,057,306
Real estate	26,306	-	3,408,145	2,551,109
Alternative investments	28,689	-	3,735,571	2,634,704
International investments	13,447	-	1,723,951	2,146,907
Mutual funds	-	72,315	72,315	6,407
Pooled investment funds	-	23,128	23,128	-
Total investments	327,257	145,765	42,354,330	40,099,760
Securities lending collateral	13,623	-	1,746,544	1,481,131
Property, plant, and equipment:				
Buildings and equipment	-	-	24	24
Allowance for depreciation	-	-	(24)	(22)
Total property, plant, and equipment	-	-	-	2
Total assets	342,771	151,243	44,590,153	42,098,538
LIABILITIES				
Warrants outstanding	75	-	11,245	14,112
Accounts payable and other liabilities	368	-	119,391	148,715
Amounts due to other funds	817	-	1,617	1
Deferred revenue	2	-	210	87
Obligations under security lending	13,623	-	1,746,544	1,481,131
Total liabilities	14,886	-	1,879,008	1,644,045
Net assets held in trust for pension and postemployment health-care benefits	\$ 327,886	\$ 151,243	\$ 42,711,145	\$ 40,454,493
Reconciliation of net assets held in trust:				
Pension benefits (a schedule of funding progress for each plan is presented in Note 11)	\$ 328,001	\$ 151,243	\$ 42,487,787	\$ 40,207,232
Postemployment health-care benefits	(115)	-	223,358	247,261
Total net assets held in trust for benefits	\$ 327,886	\$ 151,243	\$ 42,711,145	\$ 40,454,493

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND	STATE EMPLOYEES' RETIREMENT FUND	PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Additions:				
Contributions:				
From members	\$ 623	\$ 923	\$ 9,778	\$ 280,382
From employers	2,640	33,123	259,799	953,994
From other plans	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total contributions	3,263	34,046	269,577	1,234,376
Investment income:				
Net appreciation (depreciation) in fair value of investments	6,293	43,463	399,896	1,396,330
Interest, dividends, and other	5,437	32,941	317,584	1,045,355
Securities lending income	-	1,757	16,584	57,141
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investment income (loss)	11,729	78,162	734,065	2,498,826
Less investment expense:				
Investment activity expense	601	735	6,954	23,739
Securities lending expense	-	1,701	16,054	55,312
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net investment income (loss)	11,128	75,726	711,057	2,419,775
Miscellaneous income	1,094	-	-	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total additions	15,485	109,772	980,634	3,654,152
Deductions:				
Benefits paid to participants or beneficiaries	5,228	48,227	429,880	1,454,451
Medical, dental, and life insurance for retirants	1,801	13,856	163,574	356,441
Refunds and transfers to other systems	7,991	-	134,534	21,252
Administrative expense	216	225	4,297	14,463
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deductions	15,237	62,309	732,285	1,846,607
Net increase	248	47,464	248,349	1,807,545
Net plan assets held in trust for pension and postemployment health-care benefits - Beginning of fiscal year (Note 11)	<u>152,297</u>	<u>934,050</u>	<u>8,910,915</u>	<u>30,131,149</u>
Net plan assets held in trust for pension and postemployment health-care benefits - End of fiscal year	<u>\$ 152,545</u>	<u>\$ 981,513</u>	<u>\$ 9,159,264</u>	<u>\$ 31,938,694</u>
Reconciliation of net increase in assets:				
Net increase in assets held in trust for pension benefits	\$ 142	\$ 47,316	\$ 286,106	\$ 1,793,873
Net increase in assets held in trust for postemployment benefits	<u>106</u>	<u>147</u>	<u>(37,757)</u>	<u>13,672</u>
Total net increase	<u>\$ 248</u>	<u>\$ 47,464</u>	<u>\$ 248,349</u>	<u>\$ 1,807,545</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

			TOTALS	
			FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30 1997
		JUDGES' RETIREMENT FUND	STATE EMPLOYEES' DEFINED CONTRIBUTION RETIREMENT FUND	
Additions:				
Contributions:				
From members	\$	3,215	\$ 2,926	\$ 297,846
From employers		247	9,580	1,259,384
From other plans		-	148,792	148,792
Total contributions		3,461	161,298	1,706,021
Investment income:				
Net appreciation (depreciation) in fair value of investments		14,993	(8,568)	1,852,408
Interest, dividends, and other		11,455	3,676	1,416,448
Securities lending income		593	-	76,075
Total investment income (loss)		27,042	(4,892)	3,344,931
Less investment expense:				
Investment activity expense		252	-	32,281
Securities lending expense		574	-	73,642
Net investment income (loss)		26,215	(4,892)	3,239,009
Miscellaneous income		35	-	1,130
Total additions		29,712	156,406	4,946,161
Deductions:				
Benefits paid to participants or beneficiaries		14,305	10,956	1,963,047
Medical, dental, and life insurance for retirants		356	-	536,027
Refunds and transfers to other systems		6,642	95	170,514
Administrative expense		198	520	19,920
Total deductions		21,499	11,571	2,689,508
Net increase		8,212	144,835	2,256,653
Net plan assets held in trust for pension and postemployment health-care benefits - Beginning of fiscal year (Note 11)		319,673	6,408	40,454,493
Net plan assets held in trust for pension and postemployment health-care benefits - End of fiscal year	\$	327,886	\$ 151,243	\$ 42,711,145
Reconciliation of net increase in assets:				
Net increase in assets held in trust for pension benefits	\$	8,284	\$ 144,835	\$ 2,280,555
Net increase in assets held in trust for postemployment benefits		(72)	-	(23,903)
Total net increase	\$	8,212	\$ 144,835	\$ 2,256,653

STATE OF MICHIGAN
DESCRIPTIONS OF AGENCY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998

METROPOLITAN PLANNING FUND

This fund was established by the Federal Highway Act of 1973, Sections 112 and 134, to account for Federal funds that reimburse local regional planning agencies for operating expenses. This fund is administered by the Department of Transportation.

FINANCIAL INSTITUTIONS DEPOSITS FUND

This fund was administratively created as of October 1, 1988. It is used to account for security deposits held by the State Treasurer on behalf of banks which operate trust departments. Deposits are in the form of securities or other acceptable assets.

STATE EMPLOYEES' DEFERRED COMPENSATION FUND I (457)

The State Employees' Deferred Compensation Fund I (457) was administratively established to account for a deferred compensation plan which permits all State employees to defer a portion of their income until future years. The plan is administered by the Department of Treasury. Employee contributions to the fund are recognized as increases to assets and liabilities. Benefits paid and administrative costs decrease assets and liabilities. A footnote to the General Purpose Financial Statements, titled "Deferred Compensation Plans," includes additional information on the plan.

ENVIRONMENTAL QUALITY DEPOSITS FUND

This fund was established to account for deposits over which the Department of Environmental Quality has legal custody as provided by various statutes.

INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established to account for deposits held by the State Treasurer on behalf of insurance carriers who operate in this State and are required by P.A. 218 of 1956, as amended, to provide such deposits. All deposits are in the form of various securities and other acceptable assets.

STATE TREASURER'S ESCROW AND PAYING AGENT FUND

This fund was administratively created and is used to account for investments held in escrow by the State Treasurer as fiscal agent for hospitals which have defeased Michigan State Hospital Finance Authority (MSHFA) bonds. The fund also includes additional escrow and paying agent activities performed by the State Treasurer including paying agent transactions for the State Building Authority.

STATE OF MICHIGAN
**COMBINING STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUNDS**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	BALANCE OCTOBER 1, 1997 (RESTATED*)	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1998
METROPOLITAN PLANNING FUND				
ASSETS				
Current Assets:				
Equity in Common Cash	\$ 74	\$ 6,623	\$ 5,309	\$ 1,388
Amounts due from federal agencies	598	-	521	77
Total Assets	\$ 672	\$ 6,623	\$ 5,830	\$ 1,465
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 48	\$ -	\$ 20	\$ 28
Accounts payable and other liabilities	624	6,623	5,810	1,437
Total Liabilities	\$ 672	\$ 6,623	\$ 5,830	\$ 1,465
 FINANCIAL INSTITUTIONS DEPOSITS FUND				
ASSETS				
Other noncurrent assets	\$ 12,590	\$ 100	\$ -	\$ 12,690
Total Assets	\$ 12,590	\$ 100	\$ -	\$ 12,690
LIABILITIES				
Long-Term Liabilities:				
Other long-term liabilities	\$ 12,590	\$ 100	\$ -	\$ 12,690
Total Liabilities	\$ 12,590	\$ 100	\$ -	\$ 12,690
 STATE EMPLOYEES' DEFERRED COMPENSATION FUND I (457)				
ASSETS				
Current Assets:				
Equity in Common Cash	\$ 475	\$ 359	\$ 475	\$ 359
Amounts due from federal agencies	21	-	21	-
Investments	401,086	10,984	401,086	10,984
Other current assets	1,270	-	1,270	-
Total Current Assets	402,851	11,343	402,851	11,343
Investments	1,475,460	1,107,709	709,189	1,873,981
Total Assets	\$ 1,878,312	\$ 1,119,052	\$ 1,112,040	\$ 1,885,324
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 112	\$ -	\$ 77	\$ 35
Accounts payable and other liabilities	438,890	-	438,890	-
Total Current Liabilities	439,002	-	438,968	35
Long-Term Liabilities:				
Other long-term liabilities	1,439,310	445,979	-	1,885,289
Total Liabilities	\$ 1,878,312	\$ 445,979	\$ 438,968	\$ 1,885,324

Continued on next page.

STATE OF MICHIGAN
**COMBINING STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

ENVIRONMENTAL QUALITY DEPOSITS FUND	BALANCE OCTOBER 1, 1997 (RESTATED*)	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1998
ASSETS				
Current Assets:				
Cash	\$ 4	\$ -	\$ 4	\$ -
Equity in Common Cash	3,415	325	45	3,695
Total Assets	<u>\$ 3,419</u>	<u>\$ 325</u>	<u>\$ 49</u>	<u>\$ 3,695</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 3,419	\$ 321	\$ 45	\$ 3,695
Total Liabilities	<u>\$ 3,419</u>	<u>\$ 321</u>	<u>\$ 45</u>	<u>\$ 3,695</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Current Assets:				
Equity in Common Cash	\$ 918	\$ 49,562	\$ 49,755	\$ 725
Total Current Assets	918	49,562	49,755	725
Other noncurrent assets	379,344	179,308	194,686	363,966
Total Assets	<u>\$ 380,262</u>	<u>\$ 228,870</u>	<u>\$ 244,441</u>	<u>\$ 364,691</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 110	\$ 66	\$ -	\$ 176
Accounts payable and other liabilities	906	49,562	49,821	647
Total Current Liabilities	1,017	49,628	49,821	823
Long-Term Liabilities:				
Other long-term liabilities	379,245	179,308	194,686	363,867
Total Liabilities	<u>\$ 380,262</u>	<u>\$ 228,936</u>	<u>\$ 244,507</u>	<u>\$ 364,691</u>
STATE TREASURER'S ESCROW AND PAYING AGENT FUND				
ASSETS				
Current Assets:				
Cash	\$ 1,886	\$ 34,420	\$ 34,711	\$ 1,594
Investments	13,000	17,996	16,511	14,484
Other current assets	5,883	17,224	17,629	5,478
Total Current Assets	20,769	69,639	68,851	21,557
Investments	166,541	783	14,310	153,014
Total Assets	<u>\$ 187,310</u>	<u>\$ 70,422</u>	<u>\$ 83,162</u>	<u>\$ 174,571</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 21,106	\$ 31,806	\$ 31,022	\$ 21,890
Total Current Liabilities	21,106	31,806	31,022	21,890
Long-Term Liabilities:				
Other long-term liabilities	166,204	21,742	35,266	152,680
Total Liabilities	<u>\$ 187,310</u>	<u>\$ 53,549</u>	<u>\$ 66,288</u>	<u>\$ 174,571</u>

Continued on next page.

STATE OF MICHIGAN
**COMBINING STATEMENT OF CHANGES IN ASSETS AND
LIABILITIES - AGENCY FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

TOTALS - ALL AGENCY FUNDS	BALANCE OCTOBER 1, 1997 <u>(RESTATED*)</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	BALANCE SEPTEMBER 30, 1998
ASSETS				
Current Assets:				
Cash	\$ 1,890	\$ 34,420	\$ 34,715	\$ 1,594
Equity in Common Cash	4,883	56,869	55,584	6,167
Amounts due from federal agencies	619	-	541	77
Investments	414,086	28,980	417,597	25,469
Other current assets	7,153	17,224	18,899	5,478
Total Current Assets	<u>428,630</u>	<u>137,492</u>	<u>527,337</u>	<u>38,785</u>
Investments	1,642,002	1,108,492	723,499	2,026,994
Other noncurrent assets	<u>391,934</u>	<u>179,408</u>	<u>194,686</u>	<u>376,656</u>
Total Assets	<u>\$ 2,462,565</u>	<u>\$ 1,425,392</u>	<u>\$ 1,445,521</u>	<u>\$ 2,442,435</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 271	\$ 66	\$ 98	\$ 239
Accounts payable and other liabilities	464,945	88,312	525,587	27,670
Total Current Liabilities	<u>465,216</u>	<u>88,378</u>	<u>525,685</u>	<u>27,909</u>
Long-Term Liabilities:				
Other long-term liabilities	<u>1,997,349</u>	<u>647,130</u>	<u>229,952</u>	<u>2,414,527</u>
Total Liabilities	<u>\$ 2,462,565</u>	<u>\$ 735,508</u>	<u>\$ 755,637</u>	<u>\$ 2,442,435</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair market value.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS
September 30, 1998
(In Thousands)

	TOTALS				
	GOVERNMENTAL	PROPRIETARY	STATE UNIVERSITIES	SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
ASSETS					
Current Assets:					
Cash	\$ 593	\$ 324,666	\$ 233,645	\$ 558,904	\$ 601,512
Equity in Common Cash	-	11,639	-	11,639	8,845
Amounts due from component units	-	-	297	297	637
Amounts due from primary government	178	1,736	8,641	10,556	8,797
Amounts due from federal agencies	-	22,755	8,185	30,940	21,977
Amounts due from local units	-	487,294	-	487,294	514,440
Inventories	-	344	17,798	18,142	16,952
Investments	24,015	572,326	195,250	791,591	538,334
Other current assets	849	305,304	70,034	376,187	326,465
Total Current Assets	25,635	1,726,065	533,851	2,285,551	2,037,960
Advances to component units	-	-	1	1	1
Amounts due from local units	-	1,128,239	-	1,128,239	1,108,289
Mortgages and loans receivable	-	2,413,098	64,988	2,478,086	2,402,758
Investments	-	1,956,573	289,418	2,245,991	2,017,060
Property, plant, and equipment (net)	7,508	7,201	1,608,027	1,622,735	1,455,042
Other noncurrent assets	-	153,029	12,255	165,284	159,977
Total Assets	\$ 33,143	\$ 7,384,204	\$ 2,508,539	\$ 9,925,886	\$ 9,181,086
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
Current Liabilities:					
Accounts payable and other liabilities	\$ 555	\$ 84,067	\$ 143,979	\$ 228,601	\$ 185,368
Amounts due to primary government	685	2,300	2,590	5,575	4,694
Bonds and notes payable	-	572,508	13,692	586,200	691,212
Interest payable	-	70,237	2,739	72,976	69,635
Deferred revenue	279	7,800	49,953	58,032	49,658
Total Current Liabilities	1,518	736,912	212,953	951,384	1,000,567
Long-Term Liabilities:					
Deferred revenue	435	-	-	435	40
Bonds and notes payable	-	4,028,859	600,331	4,629,191	4,237,577
Other long-term liabilities	-	1,148,024	54,553	1,202,577	1,132,314
Total Liabilities	1,954	5,913,796	867,837	6,783,587	6,370,497
Fund Equity and Other Credits:					
Investment in general fixed assets	7,508	-	1,149,977	1,157,485	1,100,700
Contributed capital	-	635,575	-	635,575	525,587
Retained Earnings:					
Reserved	-	355,749	-	355,749	272,736
Unreserved	-	479,084	-	479,084	467,569
Total Retained Earnings	-	834,833	-	834,833	740,306
Fund Balances:					
Reserves for:					
Restricted funds of universities	-	-	197,518	197,518	153,370
Total Reserved	-	-	197,518	197,518	153,370
Unreserved	23,681	-	293,208	316,889	290,626
Total Fund Balances	23,681	-	490,726	514,407	443,996
Total Fund Equity and Other Credits	31,189	1,470,408	1,640,703	3,142,300	2,810,589
Total Liabilities, Fund Equity, and Other Credits	\$ 33,143	\$ 7,384,204	\$ 2,508,539	\$ 9,925,886	\$ 9,181,086

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value and to include the State Bar of Michigan.

STATE OF MICHIGAN
DESCRIPTIONS OF COMPONENT UNITS - GOVERNMENTAL
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MACKINAC BRIDGE AUTHORITY

The Authority was created by P.A. 21 of 1950. Public Act 214 of 1952, as amended, empowered the Authority to construct and operate a bridge between the lower peninsula of Michigan and the upper peninsula. Financing for the operation and maintenance of the bridge is provided by fares and earnings on investments. State statutes require that the Authority continue charging bridge tolls and repay State funds for all the subsidies provided in prior years. The Authority has not recorded a liability and the State funds have not recorded receivables for the subsidies because the reimbursements are contingent upon future net revenues and the repayment commitment is long-term and budgetary in nature. When repayments are made, they are reported as operating transfers to the primary government.

MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY

Public Act 295 of 1969, as amended, authorized the creation of the Michigan Higher Education Facilities Authority for the purpose of assisting private nonprofit institutions of higher education in financing their facilities. The Authority consists of an eleven member commission, nine of whom are appointed by the Governor with the advice and consent of the Senate and two of whom are ex officio (the Superintendent of Public Instruction and Director of the Department of Management and Budget). Financing for capital improvements is provided by issuance of limited obligation revenue bonds, which are not recorded as liabilities of the Authority. The Authority's administrative operations, which are reflected in these statements, are financed by fees.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - GOVERNMENTAL
 SEPTEMBER 30, 1998
 (In Thousands)

	MACKINAC BRIDGE AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	TOTALS	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
ASSETS				
Current Assets:				
Cash	\$ 593	\$ -	\$ 593	\$ 1,034
Amounts due from primary government	-	178	178	143
Investments	24,015	-	24,015	21,483
Other current assets	812	37	849	41
Total Current Assets	<u>25,420</u>	<u>215</u>	<u>25,635</u>	<u>22,701</u>
Property, plant, and equipment	<u>7,508</u>	<u>-</u>	<u>7,508</u>	<u>7,318</u>
Total Assets	<u>\$ 32,927</u>	<u>\$ 215</u>	<u>\$ 33,143</u>	<u>\$ 30,019</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 555	\$ -	\$ 555	\$ 1,159
Amounts due to primary government	685	-	685	318
Deferred revenue	279	-	279	200
Total Current Liabilities	<u>1,518</u>	<u>-</u>	<u>1,518</u>	<u>1,677</u>
Long-Term Liabilities:				
Deferred revenue	<u>435</u>	<u>-</u>	<u>435</u>	<u>40</u>
Total Liabilities	<u>1,954</u>	<u>-</u>	<u>1,954</u>	<u>1,716</u>
Fund Equity and Other Credits:				
Investment in general fixed assets	7,508	-	7,508	7,318
Unreserved fund balance	<u>23,466</u>	<u>215</u>	<u>23,681</u>	<u>20,985</u>
Total Fund Equity and other credits	<u>30,974</u>	<u>215</u>	<u>31,189</u>	<u>28,303</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$ 32,927</u>	<u>\$ 215</u>	<u>\$ 33,143</u>	<u>\$ 30,019</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPONENT UNITS - GOVERNMENTAL
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	MACKINAC BRIDGE AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	TOTALS	
			FISCAL YEARS ENDED	
			SEPTEMBER 30, 1998	SEPTEMBER 30, 1997
REVENUES				
From services	\$ -	\$ 134	\$ 134	\$ 122
From licenses and permits	10,579	-	10,579	10,197
Miscellaneous	1,937	8	1,945	1,191
	12,516	142	12,658	11,510
EXPENDITURES				
Current:				
Education	-	100	100	103
Transportation	9,612	-	9,612	9,800
	9,612	100	9,712	9,904
Excess of Revenues over (under) Expenditures	2,904	42	2,946	1,607
OTHER FINANCING SOURCES (USES)				
Operating transfers to primary government	(250)	-	(250)	-
	(250)	-	(250)	-
Excess of Revenues and Other Sources over (under) Expenditures and Other (Uses)	2,654	42	2,696	1,607
Fund Balances - Beginning of fiscal year	20,812	174	20,985	19,378
Fund Balances - End of fiscal year	\$ 23,466	\$ 215	\$ 23,681	\$ 20,985

STATE OF MICHIGAN
DESCRIPTIONS OF COMPONENT UNITS - PROPRIETARY
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MICHIGAN STATE HOSPITAL FINANCE AUTHORITY

The Authority was organized under P.A. 38 of 1969, as amended, to lend money to nonprofit, nonpublic hospitals and health-care corporations for capital improvements or debt refinancing. The Act also empowers the Authority to sell bonds and to enter into loan and other agreements to obtain the necessary funds for such loans. The Authority is comprised of seven members including a chairperson and four public members appointed by the Governor with the advice and consent of the Senate, and two members ex officio (the State Treasurer and the Director of the Department of Community Health). Some of the Authority's revenue and mortgage bonds have been defeased by the various borrowers by placing proceeds of new bonds in an escrow with the State Treasurer or trustee as escrow agent. Such defeased bonds and related investments are reported in the State Treasurer's Escrow and Paying Agent Fund.

The MSHFA no longer performs trustee, fiscal agent, registrar, and paying agent functions for bonds payable. The bonds and related assets have been transferred to financial institutions' trust departments. Since these obligations are, in substance, debts of other entities, MSHFA does not reflect the liabilities, assets, revenues and expenditures related to these bonds within its financial statements.

MICHIGAN EDUCATION TRUST

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

The creation of MET as an entity within the Michigan Department of Treasury was authorized by P.A. 316 of 1986. The MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the act provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the act. The act and contracts also specifically provide that the State is not liable if the MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

Public Act 222 of 1975, as amended, authorized the establishment of the Michigan Higher Education Student Loan Authority within the Department of Education, for the purpose of making loans to qualified students (or their parents) attending participating institutions of higher education. Executive Order 95-3 transferred the Authority from the Department of Education to the Department of Treasury, effective April 5, 1996. The Authority may issue revenue-dedicated debt in the principal amounts necessary to provide funds for achieving its purpose. The Authority is governed by the sixteen members of the Michigan Higher Education Assistance Authority. Of these members, fifteen are appointed by the Governor with the consent of the Senate. The State Treasurer, an ex officio member, serves as chairman.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

The Michigan Higher Education Assistance Authority was created by the Legislature through P.A. 77 of 1960, as amended. It is governed by a sixteen member board, each member being appointed by the Governor with the advice and consent of the Senate. The Authority is empowered to guarantee 100% of principal and interest on loans to persons (or their parents) attending eligible post-secondary educational institutions in Michigan. The federal government reimburses the Authority for losses on purchased loans at varying percentages depending upon rates of defaults. Revenues consist of recovery of loan losses, federal reimbursement, loan guarantee fees, and investment income.

MACKINAC ISLAND STATE PARK COMMISSION

The Mackinac Island State Park Commission was established by P.A. 355 of 1927, as amended. It consists of seven members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue dedicated bonds. Operating transfers to the Commission are principally from the General Fund for park operations.

STATE OF MICHIGAN
DESCRIPTIONS OF COMPONENT UNITS - PROPRIETARY (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1998

MICHIGAN STRATEGIC FUND

The Michigan Strategic Fund (MSF) was created by P.A. 270 of 1984 to help diversify the economy of the State and provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. The Capital Access and BIDCO investment programs help companies that have financing needs which cannot be satisfied by conventional bank lending. The Seed Capital program provides the early capital needed for business development before a company is ready for traditional venture capital, while the minority BIDCO program emphasizes investment in minority businesses.

The MSF is governed by a board of nine members, consisting of the Directors of the State Departments of Consumer and Industry Services and Treasury plus seven members appointed by the Governor with the advice and consent of the Senate. Administratively, the MSF is within the Michigan Jobs Commission. The MSF succeeded to the rights, properties, obligations and duties of the Michigan Job Development Authority and Michigan Economic Development Authority.

The MSF is authorized to issue various types of limited obligation debt. Operating transfers out provide financing for certain General Fund programs in the Michigan Jobs Commission.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

The Michigan State Housing Development Authority (MSHDA) was created by P.A. 346 of 1966, as amended, to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. The MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. Members of the Authority are appointed by the Governor. The Authority, which is administratively within the Department of Consumer and Industry Services, has a June 30 fiscal year-end.

MICHIGAN MUNICIPAL BOND AUTHORITY

The Michigan Municipal Bond Authority (MMBA) was created by P.A. 227 of 1985, as amended, to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. The MMBA pools the borrowing needs of various units and issues limited obligation debt, the proceeds of which are used to purchase local unit obligations or to make loans to local units.

The Authority is an organization within the State Department of Treasury. The Authority is governed by a board of trustees consisting of the State Treasurer, 2 appointees of the Governor, and 5 residents of the State to be appointed by the Governor with the advice and consent of the Senate.

The MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of the MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Financing for this activity is provided by the federal government and matching funds provided by the State, investment interest earnings and /or other available funds. The MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

STATE BAR OF MICHIGAN

The State Bar of Michigan is an association of lawyers who are licensed to practice in Michigan. It is organized as a public body corporate. Its financial support comes solely from member dues and income from member services. The State Bar's budget is the responsibility of its Board of Commissioners, and it is not subject to State of Michigan appropriation procedures.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - PROPRIETARY
 SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN EDUCATION TRUST	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY
ASSETS				
Current Assets:				
Cash	\$ 1,217	\$ 55,492	\$ 39,356	\$ 3,851
Equity in Common Cash	-	-	-	-
Amounts due from primary government	117	189	-	612
Amounts due from federal agencies	-	-	2,001	13,051
Amounts due from local units	-	54	-	-
Inventories	-	-	-	-
Investments	2,225	-	135,513	27,180
Other current assets:				
Mortgages and loans receivable	-	-	116,693	-
Interest receivable	90	4,090	17,853	902
Miscellaneous	982	4	615	1,603
Total other current assets	<u>1,072</u>	<u>4,094</u>	<u>135,160</u>	<u>2,505</u>
Total Current Assets	<u>4,631</u>	<u>59,829</u>	<u>312,030</u>	<u>47,198</u>
Amounts due from local units	-	-	-	-
Mortgages and loans receivable	-	-	510,337	1,018
Investments	4,534	745,388	104,996	30,974
Property, plant, and equipment (net)	-	-	-	-
Other noncurrent assets	-	-	10,179	-
Total Assets	<u>\$ 9,165</u>	<u>\$ 805,217</u>	<u>\$ 937,543</u>	<u>\$ 79,190</u>
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Accounts payable and other liabilities	\$ 52	\$ 61,571	\$ 829	\$ 9,004
Amounts due to primary government	-	325	118	-
Bonds and notes payable	-	-	33,431	-
Interest payable	-	-	10,050	-
Deferred revenue	-	-	-	1,294
Total Current Liabilities	<u>52</u>	<u>61,896</u>	<u>44,427</u>	<u>10,298</u>
Long-Term Liabilities:				
Bonds and notes payable	-	-	783,994	-
Other long-term liabilities:				
Tuition benefits	-	598,872	-	-
Escrow funds	-	-	-	-
Miscellaneous	425	40	23,506	40,407
Total other long-term liabilities	<u>425</u>	<u>598,912</u>	<u>23,506</u>	<u>40,407</u>
Total Liabilities	<u>478</u>	<u>660,808</u>	<u>851,927</u>	<u>50,705</u>
Fund Equity:				
Contributed Capital:				
From primary government	-	-	-	1,500
From other governmental units	-	-	-	16
Total Contributed Capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,516</u>
Retained Earnings:				
Reserved	-	-	8,625	26,969
Unreserved	8,687	144,409	76,990	-
Total Retained Earnings	<u>8,687</u>	<u>144,409</u>	<u>85,615</u>	<u>26,969</u>
Total Fund Equity	<u>8,687</u>	<u>144,409</u>	<u>85,615</u>	<u>28,486</u>
Total Liabilities and Fund Equity	<u>\$ 9,165</u>	<u>\$ 805,217</u>	<u>\$ 937,543</u>	<u>\$ 79,190</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - PROPRIETARY
 SEPTEMBER 30, 1998
 (In Thousands)

	MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN STRATEGIC FUND	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
ASSETS			
Current Assets:			
Cash	\$ 2,226	\$ 15,912	\$ 205,504
Equity in Common Cash	-	-	-
Amounts due from primary government	69	-	27
Amounts due from federal agencies	-	-	7,336
Amounts due from local units	-	-	-
Inventories	344	-	-
Investments	980	17,020	207,262
Other current assets:			
Mortgages and loans receivable	-	1,674	59,984
Interest receivable	-	563	22,314
Miscellaneous	74	25,865	12,553
Total other current assets	<u>74</u>	<u>28,102</u>	<u>94,851</u>
Total Current Assets	<u>3,693</u>	<u>61,034</u>	<u>514,980</u>
Amounts due from local units	-	-	-
Mortgages and loans receivable	-	12,791	1,888,952
Investments	1,734	101,925	430,768
Property, plant, and equipment (net)	3,961	-	-
Other noncurrent assets	-	10,810	5,009
Total Assets	<u>\$ 9,388</u>	<u>\$ 186,560</u>	<u>\$ 2,839,709</u>
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Accounts payable and other liabilities	\$ 203	\$ 690	\$ 9,114
Amounts due to primary government	137	13	1,210
Bonds and notes payable	152	-	76,280
Interest payable	15	-	23,376
Deferred revenue	42	-	4,431
Total Current Liabilities	<u>549</u>	<u>704</u>	<u>114,411</u>
Long-Term Liabilities:			
Bonds and notes payable	2,981	-	2,016,665
Other long-term liabilities:			
Tuition benefits	-	-	-
Escrow funds	-	-	332,526
Miscellaneous	-	22,597	54,725
Total other long-term liabilities	<u>-</u>	<u>22,597</u>	<u>387,251</u>
Total Liabilities	<u>3,530</u>	<u>23,301</u>	<u>2,518,327</u>
Fund Equity:			
Contributed Capital:			
From primary government	-	-	-
From other governmental units	-	-	-
Total Contributed Capital	<u>-</u>	<u>-</u>	<u>-</u>
Retained Earnings:			
Reserved	2,007	92,749	225,398
Unreserved	3,851	70,510	95,984
Total Retained Earnings	<u>5,858</u>	<u>163,259</u>	<u>321,382</u>
Total Fund Equity	<u>5,858</u>	<u>163,259</u>	<u>321,382</u>
Total Liabilities and Fund Equity	<u>\$ 9,388</u>	<u>\$ 186,560</u>	<u>\$ 2,839,709</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - PROPRIETARY
 SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN MUNICIPAL BOND AUTHORITY	STATE BAR OF MICHIGAN	TOTALS SEPTEMBER 30, 1998	TOTALS SEPTEMBER 30, 1997 (RESTATED*)
ASSETS				
Current Assets:				
Cash	\$ -	\$ 1,108	\$ 324,666	\$ 395,374
Equity in Common Cash	11,639	-	11,639	8,845
Amounts due from primary government	722	-	1,736	3,288
Amounts due from federal agencies	368	-	22,755	15,760
Amounts due from local units	487,240	-	487,294	514,440
Inventories	-	-	344	362
Investments	176,555	5,590	572,326	372,027
Other current assets:				
Mortgages and loans receivable	-	-	178,351	121,919
Interest receivable	38,218	-	84,030	82,802
Miscellaneous	101	1,127	42,923	42,107
Total other current assets	38,319	1,127	305,304	246,829
Total Current Assets	<u>714,844</u>	<u>7,824</u>	<u>1,726,065</u>	<u>1,556,925</u>
Amounts due from local units	1,128,239	-	1,128,239	1,108,289
Mortgages and loans receivable	-	-	2,413,098	2,347,455
Investments	536,254	-	1,956,573	1,734,432
Property, plant, and equipment (net)	-	3,240	7,201	6,955
Other noncurrent assets	127,031	-	153,029	145,553
Total Assets	<u>\$ 2,506,368</u>	<u>\$ 11,064</u>	<u>\$ 7,384,204</u>	<u>\$ 6,899,610</u>
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Accounts payable and other liabilities	\$ 1,112	\$ 1,491	\$ 84,067	\$ 59,825
Amounts due to primary government	498	-	2,300	2,160
Bonds and notes payable	462,645	-	572,508	678,779
Interest payable	36,796	-	70,237	67,210
Deferred revenue	-	2,033	7,800	5,685
Total Current Liabilities	<u>501,051</u>	<u>3,524</u>	<u>736,912</u>	<u>813,659</u>
Long-Term Liabilities:				
Bonds and notes payable	1,224,543	676	4,028,859	3,753,253
Other long-term liabilities:				
Tuition benefits	-	-	598,872	602,974
Escrow funds	-	-	332,526	305,468
Miscellaneous	74,926	-	216,627	158,363
Total other long-term liabilities	<u>74,926</u>	<u>-</u>	<u>1,148,024</u>	<u>1,066,805</u>
Total Liabilities	<u>1,800,521</u>	<u>4,201</u>	<u>5,913,796</u>	<u>5,633,717</u>
Fund Equity:				
Contributed Capital:				
From primary government	107,106	-	108,606	91,252
From other governmental units	526,953	-	526,970	434,335
Total Contributed Capital	<u>634,059</u>	<u>-</u>	<u>635,575</u>	<u>525,587</u>
Retained Earnings:				
Reserved	-	-	355,749	272,736
Unreserved	71,788	6,864	479,084	467,569
Total Retained Earnings	<u>71,788</u>	<u>6,864</u>	<u>834,833</u>	<u>740,306</u>
Total Fund Equity	<u>705,847</u>	<u>6,864</u>	<u>1,470,408</u>	<u>1,265,893</u>
Total Liabilities and Fund Equity	<u>\$ 2,506,368</u>	<u>\$ 11,064</u>	<u>\$ 7,384,204</u>	<u>\$ 6,899,610</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value and to include the State Bar of Michigan.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
COMPONENT UNITS - PROPRIETARY

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN EDUCATION TRUST	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION
OPERATING REVENUES					
Operating revenues	\$ -	\$ -	\$ -	\$ 42,704	\$ 2,866
Interest income	566	37,388	43,051	-	-
Investment revenue (net)	-	33,430	15,570	-	-
Miscellaneous:					
Federal revenues	-	-	5,796	61,441	-
Financing fees	-	-	-	-	-
Other	1,359	4,271	-	-	-
Total miscellaneous	<u>1,359</u>	<u>4,271</u>	<u>5,796</u>	<u>61,441</u>	<u>-</u>
Total Operating Revenues	<u>1,925</u>	<u>75,089</u>	<u>64,417</u>	<u>104,146</u>	<u>2,866</u>
OPERATING EXPENSES					
Salaries, wages, and other administrative	1,196	1,383	10,158	10,373	3,845
Interest expense	-	-	39,450	-	-
Depreciation	-	-	-	-	295
Purchases for resale	-	-	-	-	354
Other operating expenses:					
Loan loss expense	-	-	-	58,395	-
Tuition benefit expense	-	27,312	-	-	-
Amortization of deferred issue costs	-	-	781	-	-
Miscellaneous	-	-	12,569	37,585	175
Total other operating expenses	<u>-</u>	<u>27,312</u>	<u>13,350</u>	<u>95,980</u>	<u>175</u>
Total Operating Expenses	<u>1,196</u>	<u>28,695</u>	<u>62,957</u>	<u>106,352</u>	<u>4,669</u>
Operating Income (Loss)	<u>729</u>	<u>46,393</u>	<u>1,460</u>	<u>(2,206)</u>	<u>(1,803)</u>
NONOPERATING REVENUES (EXPENSES)					
Federal grant revenue	-	-	-	(32,137)	-
Interest revenue	-	-	-	4,274	234
Other nonoperating revenues:					
Tribal gaming revenue	-	-	-	-	-
Other nonoperating revenue	-	-	-	-	389
Total other nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389</u>
Nonoperating grants	-	-	-	-	-
Interest expense	-	-	-	-	(193)
Other nonoperating expense	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,864)</u>	<u>430</u>
Income (Loss) Before Operating Transfers	<u>729</u>	<u>46,393</u>	<u>1,460</u>	<u>(30,070)</u>	<u>(1,373)</u>
OPERATING TRANSFERS					
Operating transfers from primary government	-	-	-	-	1,713
Operating transfers to primary government	-	-	-	-	-
Total Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,713</u>
Net Income (Loss)	<u>729</u>	<u>46,393</u>	<u>1,460</u>	<u>(30,070)</u>	<u>340</u>
Retained Earnings - Beginning of fiscal year - restated	<u>7,958</u>	<u>98,016</u>	<u>84,155</u>	<u>57,039</u>	<u>5,518</u>
Retained Earnings - End of fiscal year	<u>\$ 8,687</u>	<u>\$ 144,409</u>	<u>\$ 85,615</u>	<u>\$ 26,969</u>	<u>\$ 5,858</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
COMPONENT UNITS - PROPRIETARY
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

	MICHIGAN				TOTALS	
	MICHIGAN STRATEGIC FUND	STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	STATE BAR OF MICHIGAN	FISCAL YEARS ENDED	
					SEPTEMBER 30, 1998	SEPTEMBER 30, 1997 (RESTATED*)
OPERATING REVENUES						
Operating revenues	\$ -	\$ -	\$ -	\$ 7,900	\$ 53,470	\$ 43,408
Interest income	1,354	153,920	111,899	-	348,178	328,141
Investment revenue (net)	6,734	35,035	-	-	90,769	84,909
Miscellaneous:						
Federal revenues	-	6,232	-	-	73,469	76,635
Financing fees	1,060	-	-	-	1,060	706
Other	-	6,555	3,911	421	16,518	5,678
Total miscellaneous	1,060	12,787	3,911	421	91,047	83,019
Total Operating Revenues	9,148	201,742	115,810	8,321	583,464	539,477
OPERATING EXPENSES						
Salaries, wages, and other administrative	2,647	22,692	5,524	7,790	65,607	60,311
Interest expense	-	135,056	91,237	-	265,743	254,093
Depreciation	-	-	-	-	295	289
Purchases for resale	-	-	-	-	354	345
Other operating expenses:						
Loan loss expense	2,128	1,588	-	-	62,111	58,567
Tuition benefit expense	-	-	-	-	27,312	38,362
Amortization of deferred issue costs	-	-	(146)	-	635	1,278
Miscellaneous	-	5,971	-	33	56,334	44,836
Total other operating expenses	2,128	7,559	(146)	33	146,392	143,044
Total Operating Expenses	4,775	165,307	96,616	7,824	478,391	458,082
Operating Income (Loss)	4,373	36,435	19,195	497	105,073	81,395
NONOPERATING REVENUES (EXPENSES)						
Federal grant revenue	1,968	72,826	-	-	42,657	68,579
Interest revenue	-	-	-	(55)	4,452	3,715
Other nonoperating revenues:						
Tribal gaming revenue	44,519	-	-	-	44,519	36,010
Other nonoperating revenue	-	109	-	-	498	4,830
Total other nonoperating revenues	44,519	109	-	-	45,017	40,841
Nonoperating grants	(25,862)	(78,791)	-	-	(104,653)	(100,370)
Interest expense	-	-	-	(55)	(248)	(81)
Other nonoperating expense	(58)	-	-	-	(58)	(16,755)
Total Nonoperating Revenues (Expenses)	20,568	(5,856)	-	(110)	(12,832)	(4,071)
Income (Loss) Before Operating Transfers	24,941	30,579	19,195	387	92,241	77,324
OPERATING TRANSFERS						
Operating transfers from primary government	586	-	-	-	2,299	2,441
Operating transfers to primary government	(13)	-	-	-	(13)	(27)
Total Operating Transfers In (Out)	573	-	-	-	2,286	2,414
Net Income (Loss)	25,513	30,579	19,195	387	94,527	79,738
Retained Earnings - Beginning of fiscal year - restated	137,746	290,803	52,594	6,476	740,306	660,568
Retained Earnings - End of fiscal year	\$ 163,259	\$ 321,382	\$ 71,788	\$ 6,864	\$ 834,833	\$ 740,306

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value include the State Bar of Michigan.

STATE OF MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN EDUCATION TRUST	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ 729	\$ 46,393	\$ 1,460	\$ (2,206)	\$ (1,803)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	-	-	-	-	295
Amortization of deferred items (net)	(44)	-	781	(1,240)	-
Interest (nonprogram) and investment income	(522)	(70,817)	(15,570)	-	-
Interest expense	-	-	39,450	-	-
Other adjustments	-	-	-	-	389
Changes in assets and liabilities:					
Amounts due from primary government	15	9	-	1,422	70
Amounts due from federal agencies	-	-	(1,061)	(6,980)	-
Amounts due from local units	-	-	-	-	-
Inventories	-	-	-	-	18
Mortgages and loans receivable (program loans)	-	-	(121,251)	533	-
Other assets	26	6,317	(6,085)	(196)	(11)
Accounts payable and other liabilities	3	12,446	9,480	6,797	(12)
Amounts due to other funds	-	-	-	-	10
Amounts due to component units	-	-	-	-	-
Amounts due to primary government	-	263	65	-	-
Deferred revenue	-	-	-	2,379	42
Tuition benefit obligation (nonaccretion portion)	-	2,074	-	-	-
Net cash provided (used) by operating activities	<u>\$ 208</u>	<u>\$ (3,315)</u>	<u>\$ (92,732)</u>	<u>\$ 510</u>	<u>\$ (1,002)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	\$ -	\$ -	\$ 347,612	\$ -	\$ 976
Principal repayments on bonds and notes	-	-	(203,135)	-	(160)
Interest paid	-	-	(40,608)	-	-
Grants received from federal government	-	-	-	-	-
Nonoperating grants	-	-	-	-	-
Operating transfers from primary government	-	-	-	-	1,713
Operating transfers to primary government	-	-	-	-	-
Equity transfers from primary government	-	-	-	-	-
Other noncapital financing provided	328	-	-	-	-
Other noncapital financing used	-	-	(2,089)	-	-
Net cash provided (used) by noncapital financing activities	<u>\$ 328</u>	<u>\$ -</u>	<u>\$ 101,780</u>	<u>\$ -</u>	<u>\$ 2,529</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ -	\$ -	\$ -	\$ -	\$ (347)
Interest paid on revenue bonds	-	-	-	-	(181)
Net cash provided (used) by capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (528)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	\$ (2,660)	\$ (276,874)	\$ (674,484)	\$ (22,228)	\$ -
Proceeds from sale and maturities of investment securities	1,650	268,193	655,500	16,595	(46)
Interest and dividends on investments	572	37,388	14,658	3,455	234
Net cash provided (used) by investing activities	<u>\$ (438)</u>	<u>\$ 28,706</u>	<u>\$ (4,327)</u>	<u>\$ (2,179)</u>	<u>\$ 188</u>
Net cash provided (used) - all activities	\$ 98	\$ 25,392	\$ 4,721	\$ (1,669)	\$ 1,187
Cash and cash equivalents at beginning of year - restated	1,119	30,100	34,635	5,520	1,039
Cash and cash equivalents at end of year	<u>\$ 1,217</u>	<u>\$ 55,492</u>	<u>\$ 39,356</u>	<u>\$ 3,851</u>	<u>\$ 2,226</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per balance sheet classifications:					
Cash	\$ 1,217	\$ 55,492	\$ 39,356	\$ 3,851	\$ 2,226
Equity in Common Cash	-	-	-	-	-
Cash and cash equivalents at end of year	<u>\$ 1,217</u>	<u>\$ 55,492</u>	<u>\$ 39,356</u>	<u>\$ 3,851</u>	<u>\$ 2,226</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value and to include the State Bar of Michigan.

STATE OF MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

	MICHIGAN STRATEGIC FUND	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	STATE BAR OF MICHIGAN	TOTALS	
					SEPTEMBER 30, 1998	SEPTEMBER 30 1997 (RESTATED*)
CASH FLOWS FROM OPERATING ACTIVITIES						
Operating income (loss)	\$ 4,373	\$ 36,435	\$ 19,195	\$ 497	\$ 105,073	\$ 81,395
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	-	-	-	-	295	512
Amortization of deferred items (net)	-	-	(146)	-	(649)	2,371
Interest (nonprogram) and investment income	(6,766)	(35,035)	(29,861)	-	(158,572)	(155,188)
Interest expense	-	135,056	91,237	-	265,743	252,848
Other adjustments	-	(366)	-	256	279	308
Changes in assets and liabilities:						
Amounts due from primary government	-	-	-	-	1,516	2,744
Amounts due from federal agencies	318	(2,782)	-	-	(10,505)	(4,592)
Amounts due from local units	-	-	8,767	-	8,767	(169,426)
Inventories	-	-	-	-	18	(28)
Mortgages and loans receivable (program loans)	2,909	(4,267)	-	-	(122,075)	(220,838)
Other assets	(4,968)	6,132	(9,684)	303	(8,166)	(12,402)
Accounts payable and other liabilities	5,033	23,367	(6)	(235)	56,874	48,882
Amounts due to other funds	(14)	(294)	-	-	(298)	126
Amounts due to component units	-	-	-	-	-	(1)
Amounts due to primary government	-	-	-	-	328	(1,486)
Deferred revenue	-	-	-	1,318	3,739	2,458
Tuition benefit obligation (nonaccretion portion)	-	-	-	-	2,074	2,450
Net cash provided (used) by operating activities	\$ 884	\$ 158,246	\$ 79,502	\$ 2,139	\$ 144,441	\$ (169,867)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from sale of bonds and notes	\$ -	\$ 160,559	\$ 637,375	\$ -	\$ 1,146,522	\$ 954,589
Principal repayments on bonds and notes	-	(241,104)	(542,772)	-	(987,171)	(604,228)
Interest paid	-	(127,781)	(78,508)	-	(246,897)	(225,352)
Grants received from federal government	1,968	72,826	109,988	-	184,782	144,738
Nonoperating grants	(1,968)	(78,791)	-	-	(80,759)	(61,049)
Operating transfers from primary government	586	-	-	-	2,299	2,441
Operating transfers to primary government	(13)	-	-	-	(13)	(27)
Equity transfers from primary government	-	-	-	-	-	1,265
Other noncapital financing provided	44,519	-	-	-	44,847	36,285
Other noncapital financing used	(23,952)	-	-	-	(26,040)	(40,575)
Net cash provided (used) by noncapital financing activities	\$ 21,140	\$ (214,291)	\$ 126,083	\$ -	\$ 37,569	\$ 208,088
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	\$ -	\$ -	\$ -	\$ (452)	\$ (799)	\$ (837)
Interest paid on revenue bonds	-	-	-	(201)	(382)	(319)
Net cash provided (used) by capital and related financing activities	\$ -	\$ -	\$ -	\$ (654)	\$ (1,182)	\$ (1,156)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investment securities	\$ (258,988)	\$ (209,749)	\$ -	\$ (1,793)	\$ (1,446,777)	\$ (1,000,968)
Proceeds from sale and maturities of investment securities	230,684	144,331	(233,835)	-	1,083,071	804,148
Interest and dividends on investments	6,944	21,313	30,305	95	114,964	119,926
Net cash provided (used) by investing activities	\$ (21,360)	\$ (44,105)	\$ (203,529)	\$ (1,698)	\$ (248,742)	\$ (76,894)
Net cash provided (used) - all activities	\$ 664	\$ (100,150)	\$ 2,056	\$ (213)	\$ (67,913)	\$ (39,829)
Cash and cash equivalents at beginning of year - restated	15,248	305,654	9,583	1,321	404,219	444,048
Cash and cash equivalents at end of year	\$ 15,912	\$ 205,504	\$ 11,639	\$ 1,108	\$ 336,305	\$ 404,219
RECONCILIATION OF CASH AND CASH EQUIVALENTS						
Per balance sheet classifications:						
Cash	\$ 15,912	\$ 205,504	\$ -	\$ 1,108	\$ 324,666	\$ 395,374
Equity in Common Cash	-	-	11,639	-	11,639	8,845
Cash and cash equivalents at end of year	\$ 15,912	\$ 205,504	\$ 11,639	\$ 1,108	\$ 336,305	\$ 404,219
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value and to include the State Bar of Michigan.

STATE OF MICHIGAN
DESCRIPTIONS OF COMPONENT UNITS - STATE UNIVERSITIES
FISCAL YEAR ENDED JUNE 30, 1998

The State has thirteen legally separate public universities, ten of which are included in this report as component units and three of which are excluded. Included are the ten universities whose governing boards are appointed by the Governor and for which the State is, therefore, defined as being legally accountable. Excluded are those three that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The three that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, which are local units of government.

The information presented in this report for the ten included universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 1998. The ten included universities are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - STATE UNIVERSITIES
 JUNE 30, 1998
 (In Thousands)

	CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY	MICHIGAN TECHNOLOGICAL UNIVERSITY
ASSETS						
Current Assets:						
Cash	\$ 70,112	\$ 42,678	\$ 16,457	\$ 50,746	\$ 389	\$ 8,710
Amounts due from component units	15	-	-	40	-	31
Amounts due from primary government	1,284	835	2,029	2,150	90	121
Amounts due from federal agencies	1,513	671	282	-	-	3,027
Inventories	2,552	747	2,004	2,193	890	1,698
Investments	-	-	24,655	-	17,471	20,440
Other current assets	6,293	16,335	2,635	9,045	1,522	4,167
Total Current Assets	<u>81,770</u>	<u>61,266</u>	<u>48,063</u>	<u>64,175</u>	<u>20,363</u>	<u>38,194</u>
Advances to component units	1	-	-	-	-	-
Mortgages and loans receivable	8,138	7,557	14,642	7,918	2,125	8,950
Investments	56,718	26,535	46,896	47,236	5,792	13,403
Property, plant, and equipment						
Land	14,738	35,211	10,297	21,227	7,313	16,420
Buildings and equipment	262,678	290,918	206,313	177,841	78,030	218,919
Allowance for depreciation	(139,288)	(133,032)	(100,391)	(58,568)	(40,206)	(130,021)
Construction in progress	47,145	25,537	9,839	22,400	1,616	8,693
Total property, plant, and equipment	<u>185,273</u>	<u>218,634</u>	<u>126,058</u>	<u>162,900</u>	<u>46,753</u>	<u>114,011</u>
Other noncurrent assets	-	-	2,088	203	-	-
Total Assets	<u>\$ 331,900</u>	<u>\$ 313,992</u>	<u>\$ 237,747</u>	<u>\$ 282,431</u>	<u>\$ 75,033</u>	<u>\$ 174,558</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS						
Current Liabilities:						
Accounts payable and other liabilities	\$ 7,556	\$ 23,599	\$ 10,714	\$ 9,450	\$ 1,723	\$ 14,265
Amounts due to primary government	233	571	450	96	120	890
Bonds and notes payable	2,075	3,262	1,386	1,440	425	310
Interest payable	-	452	1,548	739	-	-
Deferred revenue	12,223	5,380	4,050	6,354	1,117	5,177
Total Current Liabilities	<u>22,086</u>	<u>33,264</u>	<u>18,146</u>	<u>18,078</u>	<u>3,385</u>	<u>20,642</u>
Long-Term Liabilities:						
Bonds and notes payable	92,157	86,323	77,142	45,915	20,515	23,155
Other long-term liabilities						
Escrow funds	-	-	-	-	1,765	-
Miscellaneous	2,360	7,498	5,009	2,291	2,150	1,360
Total other long-term liabilities	<u>2,360</u>	<u>7,498</u>	<u>5,009</u>	<u>2,291</u>	<u>3,915</u>	<u>1,360</u>
Total Liabilities	<u>116,603</u>	<u>127,085</u>	<u>100,297</u>	<u>66,284</u>	<u>27,815</u>	<u>45,157</u>
Fund Equity and Other Credits:						
Investment in general fixed assets	119,036	155,363	88,791	118,959	34,170	90,546
Fund Balances:						
Reserves for:						
Restricted funds of universities	28,848	12,361	26,073	42,270	6,163	11,255
Total Reserved	<u>28,848</u>	<u>12,361</u>	<u>26,073</u>	<u>42,270</u>	<u>6,163</u>	<u>11,255</u>
Unreserved	<u>67,412</u>	<u>19,183</u>	<u>22,586</u>	<u>54,918</u>	<u>6,885</u>	<u>27,600</u>
Total Fund Balances	<u>96,261</u>	<u>31,544</u>	<u>48,659</u>	<u>97,188</u>	<u>13,048</u>	<u>38,855</u>
Total Fund Equity and Other Credits	<u>215,297</u>	<u>186,907</u>	<u>137,450</u>	<u>216,147</u>	<u>47,218</u>	<u>129,401</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 331,900</u>	<u>\$ 313,992</u>	<u>\$ 237,747</u>	<u>\$ 282,431</u>	<u>\$ 75,033</u>	<u>\$ 174,558</u>

STATE OF MICHIGAN
COMBINING BALANCE SHEET
COMPONENT UNITS - STATE UNIVERSITIES
 JUNE 30, 1998
 (In Thousands)

	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	TOTALS	
					JUNE 30, 1998	JUNE 30, 1997 (RESTATED*)
ASSETS						
Current Assets:						
Cash	\$ 22,834	\$ 8,106	\$ 14,205	\$ (592)	\$ 233,645	\$ 205,104
Amounts due from component units	97	113	-	-	297	637
Amounts due from primary government	437	530	3	1,162	8,641	5,366
Amounts due from federal agencies	156	619	-	1,916	8,185	6,217
Inventories	1,241	1,258	232	4,982	17,798	16,590
Investments	8,001	33,522	19,494	71,667	195,250	144,825
Other current assets	3,040	5,509	1,397	20,091	70,034	79,595
Total Current Assets	<u>35,807</u>	<u>49,657</u>	<u>35,332</u>	<u>99,226</u>	<u>533,851</u>	<u>458,333</u>
Advances to component units	-	-	-	-	1	1
Mortgages and loans receivable	6,999	1,931	783	5,944	64,988	55,303
Investments	35,765	48,811	-	8,263	289,418	282,627
Property, plant, and equipment						
Land	8,504	10,958	9,876	21,779	156,323	147,035
Buildings and equipment	164,789	170,735	145,383	503,779	2,219,385	2,063,976
Allowance for depreciation	(70,079)	(81,912)	(46,406)	(201,393)	(1,001,297)	(952,322)
Construction in progress	1,170	51,164	758	65,292	233,615	182,079
Total property, plant, and equipment	<u>104,385</u>	<u>150,945</u>	<u>109,611</u>	<u>389,457</u>	<u>1,608,027</u>	<u>1,440,769</u>
Other noncurrent assets	-	-	-	9,964	12,255	14,424
Total Assets	<u>\$ 182,955</u>	<u>\$ 251,344</u>	<u>\$ 145,726</u>	<u>\$ 512,854</u>	<u>\$ 2,508,539</u>	<u>\$ 2,251,457</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS						
Current Liabilities:						
Accounts payable and other liabilities	\$ 7,049	\$ 24,462	\$ 2,782	\$ 42,380	\$ 143,979	\$ 124,384
Amounts due to primary government	205	11	-	15	2,590	2,216
Bonds and notes payable	875	600	395	2,925	13,692	12,433
Interest payable	-	-	-	-	2,739	2,425
Deferred revenue	2,725	4,740	1,660	6,528	49,953	43,773
Total Current Liabilities	<u>10,854</u>	<u>29,813</u>	<u>4,836</u>	<u>51,848</u>	<u>212,953</u>	<u>185,231</u>
Long-Term Liabilities:						
Bonds and notes payable	45,540	48,050	30,160	131,375	600,331	484,324
Other long-term liabilities						
Escrow funds	-	-	-	-	1,765	1,349
Miscellaneous	8,080	8,698	1,332	14,009	52,788	64,160
Total other long-term liabilities	<u>8,080</u>	<u>8,698</u>	<u>1,332</u>	<u>14,009</u>	<u>54,553</u>	<u>65,509</u>
Total Liabilities	<u>64,475</u>	<u>86,561</u>	<u>36,329</u>	<u>197,232</u>	<u>867,837</u>	<u>735,064</u>
Fund Equity and Other Credits:						
Investment in general fixed assets	81,035	104,235	96,879	260,964	1,149,977	1,093,383
Fund Balances:						
Reserves for:						
Restricted funds of universities	11,643	20,893	4,529	33,483	197,518	153,370
Total Reserved	<u>11,643</u>	<u>20,893</u>	<u>4,529</u>	<u>33,483</u>	<u>197,518</u>	<u>153,370</u>
Unreserved	<u>25,803</u>	<u>39,655</u>	<u>7,989</u>	<u>21,175</u>	<u>293,208</u>	<u>269,640</u>
Total Fund Balances	<u>37,446</u>	<u>60,548</u>	<u>12,518</u>	<u>54,658</u>	<u>490,726</u>	<u>423,010</u>
Total Fund Equity and Other Credits	<u>118,480</u>	<u>164,783</u>	<u>109,397</u>	<u>315,622</u>	<u>1,640,703</u>	<u>1,516,393</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$ 182,955</u>	<u>\$ 251,344</u>	<u>\$ 145,726</u>	<u>\$ 512,854</u>	<u>\$ 2,508,539</u>	<u>\$ 2,251,457</u>

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FUND BALANCES
COMPONENT UNITS - STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 1998
 (In Thousands)

	CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY	MICHIGAN TECHNOLOGICAL UNIVERSITY
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 138,739	\$ 111,613	\$ 77,875	\$ 77,772	\$ 21,199	\$ 64,526
Government grants and contracts - restricted	66,415	13,299	8,817	42,444	3,313	23,783
Private gifts, grants, and contracts - restricted	2,613	8,887	3,253	5,242	1,216	15,216
Investment income - restricted	2,960	1,485	4,466	7,844	749	632
Realized gains on investments - unrestricted	-	108	-	-	-	1,991
Realized gains on investments - restricted	-	-	-	-	119	-
Interest on loans receivable	311	227	534	206	-	280
Expended for plant facilities	25,814	39,034	27,254	36,689	658	8,785
Retirement of indebtedness	1,965	3,282	1,293	1,046	2,008	1,209
Other sources - restricted	7,058	842	213	2,852	-	2,747
	<u>245,875</u>	<u>178,775</u>	<u>123,705</u>	<u>174,096</u>	<u>29,262</u>	<u>119,169</u>
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	211,817	163,417	101,003	136,129	28,015	128,053
Auxiliary enterprises expenditures	42,529	27,956	26,242	17,627	8,426	18,923
Indirect costs recovered	266	619	-	396	-	-
Refunded to grantors	46	-	-	-	-	-
Loan cancellations and write-offs	184	128	886	-	48	23
Administrative and collection costs	7	216	166	141	(23)	-
Expended for plant facilities	25,376	39,034	27,254	36,713	156	8,785
Retirement of indebtedness	1,965	3,282	3,700	1,046	893	1,209
Interest on indebtedness	5,304	5,110	3,958	2,054	822	165
Disposal of plant facilities	438	-	265	55	108	6
Depreciation	9,964	9,365	7,581	6,186	3,264	8,838
	<u>297,895</u>	<u>249,126</u>	<u>171,055</u>	<u>200,348</u>	<u>41,710</u>	<u>166,002</u>
TRANSFERS						
Operating transfers from primary government	74,194	88,331	55,122	46,627	12,654	47,976
Net increase (decrease) for the year	<u>22,174</u>	<u>17,980</u>	<u>7,771</u>	<u>20,376</u>	<u>206</u>	<u>1,143</u>
Total Fund Equity and Other Credits - Beginning of fiscal year	<u>193,122</u>	<u>168,928</u>	<u>129,679</u>	<u>195,772</u>	<u>47,012</u>	<u>128,258</u>
Total Fund Equity and Other Credits - End of fiscal year	<u>\$ 215,297</u>	<u>\$ 186,907</u>	<u>\$ 137,450</u>	<u>\$ 216,147</u>	<u>\$ 47,218</u>	<u>\$ 129,401</u>

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FUND BALANCES
COMPONENT UNITS - STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 1998
 (In Thousands)

	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	TOTALS	
					JUNE 30, 1998	JUNE 30, 1997 (RESTATED*)
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 45,651	\$ 73,296	\$ 25,714	\$ 174,382	\$ 810,765	\$ 763,905
Government grants and contracts - restricted	9,102	22,456	4,455	85,475	279,560	247,321
Private gifts, grants, and contracts - restricted	3,545	5,929	1,204	11,536	58,642	48,698
Investment income - restricted	115	1,453	243	1,550	21,496	14,838
Realized gains on investments - unrestricted	1,546	64	-	-	3,709	3,027
Realized gains on investments - restricted	159	265	-	-	543	333
Interest on loans receivable	147	47	49	106	1,907	1,877
Expended for plant facilities	4,048	37,314	4,971	49,877	234,444	210,871
Retirement of indebtedness	795	-	5,544	53,000	70,142	11,485
Other sources - restricted	-	448	1,552	2,241	17,953	25,402
Total revenues and other additions	65,109	141,272	43,731	378,168	1,499,162	1,327,755
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	83,466	112,382	46,131	274,382	1,284,795	1,195,408
Auxiliary enterprises expenditures	14,114	15,125	4,251	66,836	242,028	233,248
Indirect costs recovered	237	1,114	143	-	2,776	2,716
Refunded to grantors	85	-	-	-	131	7
Loan cancellations and write-offs	92	19	20	323	1,723	1,503
Administrative and collection costs	31	-	343	(149)	732	989
Expended for plant facilities	4,048	37,314	4,971	49,877	233,528	213,132
Retirement of indebtedness	795	-	5,544	53,000	71,434	11,485
Interest on indebtedness	1,448	1,850	878	6,184	27,773	23,484
Disposal of plant facilities	103	-	-	10,058	11,033	758
Depreciation	4,985	6,459	5,101	13,293	75,036	74,057
Total expenditures and other deductions	109,403	174,263	67,382	473,804	1,950,988	1,756,787
TRANSFERS						
Operating transfers from primary government	46,356	46,411	23,297	135,168	576,136	589,790
Net increase (decrease) for the year	2,062	13,420	(354)	39,532	124,309	160,759
Total Fund Equity and Other Credits - Beginning of fiscal year	116,418	151,363	109,751	276,090	1,516,393	1,355,635
Total Fund Equity and Other Credits - End of fiscal year	\$ 118,480	\$ 164,783	\$ 109,397	\$ 315,622	\$ 1,640,703	\$ 1,516,393

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.

STATE OF MICHIGAN
**COMBINING STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS
AND CHANGES IN FUND BALANCES**
COMPONENT UNITS - STATE UNIVERSITIES
FISCAL YEAR ENDED JUNE 30, 1998
(In Thousands)

	CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY	LAKE SUPERIOR STATE UNIVERSITY	MICHIGAN TECHNOLOGICAL UNIVERSITY
REVENUES						
Tuition and fees	\$ 81,716	\$ 75,311	\$ 38,443	\$ 49,602	\$ 11,142	\$ 32,114
Governmental contracts and grants	66,288	13,148	7,939	42,235	3,148	23,567
Private gifts, grants and contracts	5,212	8,383	3,369	3,498	631	14,905
Indirect cost recoveries (deduct)	77	-	231	78	-	6,077
Endowment income	760	-	-	854	127	-
Other investment income	3,302	2,428	2,790	2,411	464	1,789
Sales and services of educational activities	8,821	4,912	6,088	1,385	440	6,288
Sales and services of auxiliary activities, net	42,206	27,442	28,263	17,722	8,788	18,630
Other sources	-	97	-	4,743	(33)	-
TOTAL REVENUES	<u>208,381</u>	<u>131,721</u>	<u>87,122</u>	<u>122,529</u>	<u>24,708</u>	<u>103,370</u>
EXPENDITURES						
Instruction	81,965	67,824	45,916	48,375	10,438	43,784
Research	1,678	3,251	139	1,500	259	26,571
Public service	7,905	11,508	775	6,637	776	4,692
Academic support	12,750	17,679	12,823	12,393	2,637	9,475
Student services	17,621	17,840	9,029	9,957	1,613	4,097
Institutional support	18,457	22,809	15,110	7,348	3,779	11,002
Operation and maintenance of plant	11,792	11,576	7,315	13,810	2,884	7,201
Scholarships and fellowships	73,198	15,867	10,799	44,403	3,664	25,579
Auxiliary activities	31,839	24,788	25,276	14,723	8,426	19,261
TOTAL EXPENDITURES	<u>257,205</u>	<u>193,142</u>	<u>127,181</u>	<u>159,146</u>	<u>34,476</u>	<u>151,662</u>
MANDATORY TRANSFERS (IN) OUT						
Student services-loan fund matching grant	30	19	122	70	22	137
Debt service	7,161	7,120	5,169	2,586	688	479
Research and other matching grants	2	156	215	-	-	-
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	<u>264,398</u>	<u>200,437</u>	<u>132,688</u>	<u>161,801</u>	<u>35,187</u>	<u>152,278</u>
OTHER TRANSFERS AND (ADDITIONS) DEDUCTIONS						
Operating transfers from primary government	(71,660)	(76,673)	(48,900)	(46,627)	(12,459)	(47,664)
OTHER TRANSFERS (IN) OUT						
Capital improvements	6,601	-	3,991	2,152	1,804	249
Other	4,726	6,384	550	434	-	(1,000)
TOTAL EXPENDITURES AND TRANSFERS	<u>204,065</u>	<u>130,148</u>	<u>88,329</u>	<u>117,760</u>	<u>24,532</u>	<u>103,863</u>
REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS	4,316	1,573	(1,207)	4,768	176	(493)
Fund Balances - Beginning of fiscal year as restated	21,367	19,414	20,155	30,695	1,532	6,442
Change in restricted revenue held for future expenditures	197	784	(1,298)	2,887	33	(361)
Fund Balances - End of fiscal year	<u>\$ 25,880</u>	<u>\$ 21,771</u>	<u>\$ 17,651</u>	<u>\$ 38,350</u>	<u>\$ 1,741</u>	<u>\$ 5,588</u>

STATE OF MICHIGAN
**COMBINING STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS
AND CHANGES IN FUND BALANCES**
COMPONENT UNITS - STATE UNIVERSITIES
FISCAL YEAR ENDED JUNE 30, 1998
(In Thousands)

	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	TOTALS	
					JUNE 30, 1998	JUNE 30, 1997 (RESTATED*)
REVENUES						
Tuition and fees	\$ 22,429	\$ 47,551	\$ 19,282	\$ 88,184	\$ 465,775	\$ 432,785
Governmental contracts and grants	8,696	22,431	4,569	85,391	277,412	245,669
Private gifts, grants and contracts	3,360	5,322	1,383	16,006	62,069	55,999
Indirect cost recoveries (deduct)	-	-	393	1,082	7,939	6,095
Endowment income	564	643	-	-	2,948	2,727
Other investment income	1,423	2,431	697	4,218	21,953	22,729
Sales and services of educational activities	5,408	3,419	2,524	12,316	51,601	44,638
Sales and services of auxiliary activities, net	14,027	14,206	3,811	65,467	240,562	229,495
Other sources	-	-	529	-	5,336	10,349
TOTAL REVENUES	55,908	96,003	33,188	272,664	1,135,595	1,050,484
EXPENDITURES						
Instruction	27,069	49,176	17,852	91,895	484,294	465,267
Research	980	5,588	1,028	9,981	50,975	46,606
Public service	8,012	435	1,042	8,211	49,995	46,992
Academic support	7,034	9,505	6,497	28,506	119,299	105,830
Student services	9,032	8,423	3,799	16,770	98,182	91,177
Institutional support	8,198	13,600	6,268	22,597	129,166	116,759
Operation and maintenance of plant	8,139	8,593	4,317	21,724	97,351	94,952
Scholarships and fellowships	9,979	21,372	5,892	93,381	304,135	265,290
Auxiliary activities	14,114	14,813	3,890	57,781	214,911	210,470
TOTAL EXPENDITURES	92,557	131,505	50,586	350,847	1,548,308	1,443,343
MANDATORY TRANSFERS (IN) OUT						
Student services-loan fund matching grant	135	-	89	28	653	477
Debt service	2,315	648	844	9,456	36,466	30,409
Research and other matching grants	-	-	-	(30)	343	1,717
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	95,008	132,153	51,519	360,302	1,585,770	1,475,946
OTHER TRANSFERS AND (ADDITIONS) DEDUCTIONS:						
Operating transfers from primary government	(45,933)	(42,461)	(22,462)	(107,934)	(522,772)	(497,484)
OTHER TRANSFERS (IN) OUT						
Capital improvements	3,559	6,018	2,797	-	27,171	24,614
Other	(30)	(17)	731	16,168	27,946	25,820
TOTAL EXPENDITURES AND TRANSFERS	52,603	95,693	32,585	268,537	1,118,115	1,028,896
REVENUES OVER (UNDER) EXPENDITURES AND TRANSFERS	3,305	310	603	4,127	17,479	21,588
Fund Balances - Beginning of fiscal year as restated	3,496	21,797	4,756	50,060	179,714	153,301
Change in restricted revenue held for future expenditures	62	119	(114)	(1,082)	1,227	4,825
Fund Balances - End of fiscal year	\$ 6,862	\$ 22,226	\$ 5,245	\$ 53,105	\$ 198,420	\$ 179,714

* Prior year column amounts have been restated to reflect an accounting change for reporting investments at fair value.



The Department of Consumer & Industry Services also regulates nursing homes and homes for the aged. As one of the winners of the Governor's Quality Care Awards for 1998, this retirement center in East Lansing is one of Michigan's finest retirement facilities for seniors.



Shown above is the Museum of African American History, located in the Detroit Cultural Center. The 120,000 square foot state-of-the-art facility is Michigan's newest major museum, and the largest Black historical and cultural museum in the world. It was funded in part by the Michigan Council for Arts and Cultural Affairs, a Department of Consumer & Industry Services agency.

STATE OF MICHIGAN
SCHEDULE OF GENERAL FIXED ASSETS ACCOUNT GROUP BY FUNCTION
 SEPTEMBER 30, 1998
 (In Thousands)

<u>FUNCTION</u>	<u>LAND</u>	<u>BUILDINGS</u>	<u>EQUIPMENT</u>	<u>EQUITY INTERESTS IN JOINT VENTURES</u>	<u>TOTAL</u>
General government	\$ 31,702	\$ 382,427	\$ 56,874	\$ -	\$ 471,003
Education	687	10,596	1,937	-	13,220
Family independence services	2,398	155,546	55,721	-	213,666
Public safety and corrections	46,222	1,207,586	65,971	-	1,319,779
Conservation, recreation, and agriculture	151,495	78,145	71,596	25,000	326,236
Labor, commerce, and regulatory	711	25,885	61,674	-	88,270
Health services	15,770	242,753	18,561	-	277,085
Transportation	9,397	88,073	100,658	5,229	203,358
Total general fixed assets allocated to functions	<u>\$ 258,384</u>	<u>\$ 2,191,011</u>	<u>\$ 432,992</u>	<u>\$ 30,229</u>	2,912,616
Construction in progress					<u>112,339</u>
Total general fixed assets					<u>\$ 3,024,955</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

<u>FUNCTION</u>	<u>BALANCE OCTOBER 1, 1997*</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ADJUSTMENTS AND RECLAS-SIFICATIONS</u>	<u>BALANCE SEPTEMBER 30, 1998</u>
General government	\$ 476,906	\$ 12,081	\$ 8,353	\$ (9,632)	\$ 471,003
Education	25,794	329	202	(12,700)	13,220
Family independence services	198,380	34,399	20,522	1,409	213,666
Public safety and corrections	1,308,201	17,510	28,215	22,284	1,319,779
Conservation, recreation, and agriculture	335,450	11,456	3,520	(17,150)	326,236
Labor, commerce, and regulatory	85,770	10,124	13,202	5,577	88,270
Health services	296,230	3,295	22,061	(381)	277,085
Transportation	195,515	12,200	8,673	4,316	203,358
Total general fixed assets allocated to functions	2,922,247	101,394	104,748	(6,276)	2,912,616
Construction in progress	72,703	52,967	-	(13,331)	112,339
Total general fixed assets	<u>\$ 2,994,950</u>	<u>\$ 154,361</u>	<u>\$ 104,748</u>	<u>\$ (19,607)</u>	<u>\$ 3,024,955</u>

*October 1, 1997 beginning balances do not equal September 30, 1997 ending balances due to Executive Order Reorganizations.

STATE OF MICHIGAN
SCHEDULE OF GENERAL FIXED ASSETS ACCOUNT GROUP BY FUNCTION
 SEPTEMBER 30, 1998
 (In Thousands)

<u>FUNCTION</u>	<u>LAND</u>	<u>BUILDINGS</u>	<u>EQUIPMENT</u>	<u>EQUITY INTERESTS IN JOINT VENTURES</u>	<u>TOTAL</u>
General government	\$ 31,702	\$ 382,427	\$ 56,874	\$ -	\$ 471,003
Education	687	10,596	1,937	-	13,220
Family independence services	2,398	155,546	55,721	-	213,666
Public safety and corrections	46,222	1,207,586	65,971	-	1,319,779
Conservation, recreation, and agriculture	151,495	78,145	71,596	25,000	326,236
Labor, commerce, and regulatory	711	25,885	61,674	-	88,270
Health services	15,770	242,753	18,561	-	277,085
Transportation	9,397	88,073	100,658	5,229	203,358
Total general fixed assets allocated to functions	<u>\$ 258,384</u>	<u>\$ 2,191,011</u>	<u>\$ 432,992</u>	<u>\$ 30,229</u>	2,912,616
Construction in progress					<u>112,339</u>
Total general fixed assets					<u>\$ 3,024,955</u>

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

<u>FUNCTION</u>	<u>BALANCE OCTOBER 1, 1997*</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ADJUSTMENTS AND RECLAS-SIFICATIONS</u>	<u>BALANCE SEPTEMBER 30, 1998</u>
General government	\$ 476,906	\$ 12,081	\$ 8,353	\$ (9,632)	\$ 471,003
Education	25,794	329	202	(12,700)	13,220
Family independence services	198,380	34,399	20,522	1,409	213,666
Public safety and corrections	1,308,201	17,510	28,215	22,284	1,319,779
Conservation, recreation, and agriculture	335,450	11,456	3,520	(17,150)	326,236
Labor, commerce, and regulatory	85,770	10,124	13,202	5,577	88,270
Health services	296,230	3,295	22,061	(381)	277,085
Transportation	195,515	12,200	8,673	4,316	203,358
Total general fixed assets allocated to functions	2,922,247	101,394	104,748	(6,276)	2,912,616
Construction in progress	72,703	52,967	-	(13,331)	112,339
Total general fixed assets	<u>\$ 2,994,950</u>	<u>\$ 154,361</u>	<u>\$ 104,748</u>	<u>\$ (19,607)</u>	<u>\$ 3,024,955</u>

*October 1, 1997 beginning balances do not equal September 30, 1997 ending balances due to Executive Order Reorganizations.

STATE OF MICHIGAN
COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL AND SPECIAL REVENUE FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

SOURCE	TOTAL	GENERAL FUND	SPECIAL REVENUE FUNDS
TAXES			
Sales	\$ 5,617,331	\$ 1,462,833	\$ 4,154,498
Personal income	6,793,125	5,093,751	1,699,374
Single business	2,349,148	2,349,148	-
Use	1,159,258	772,839	386,419
State education (property)	1,256,874	-	1,256,874
Real estate transfer	227,852	-	227,852
Tobacco products	566,046	203,071	362,974
Beer and wine	50,306	50,306	-
Liquor	73,099	49,182	23,917
Horse race wagering	12,709	12,709	-
Intangibles	45,012	45,012	-
Estate and inheritance	110,383	110,383	-
Telephone and telegraph company	151,964	151,964	-
Insurance company	142,565	142,565	-
Motor vehicle weight	665,325	544	664,782
Gasoline	904,491	1	904,491
Aviation fuel	6,868	-	6,868
Diesel fuel	118,384	-	118,384
Gas and oil severance	30,982	30,982	-
Industrial facilities	115,341	-	115,341
Convention hotel accommodation	15,619	15,619	-
Airport parking	13,593	13,593	-
Penalties and interest	122,939	122,939	-
Other	76,813	5,975	70,839
	<u>20,626,025</u>	<u>10,633,414</u>	<u>9,992,611</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	4,946,356	4,945,756	599
Department of Education	671,352	586,677	84,675
Department of Agriculture	1,007,568	1,007,567	1
Department of Labor	233,638	103,058	130,580
Department of Housing and Urban Development	52,986	52,986	-
Environmental Protection Agency	24,138	24,138	-
Department of Energy	9,244	9,244	-
Department of Transportation	586,947	10,401	576,546
Department of Interior	15,228	13,554	1,674
Department of Defense	19,078	19,078	-
Department of Justice	41,615	41,615	-
Other	71,341	70,206	1,135
	<u>7,679,490</u>	<u>6,884,279</u>	<u>795,211</u>
FROM LOCAL AGENCIES			
Counties	121,572	108,584	12,988
Cities, villages, and townships	5,816	233	5,583
Colleges and universities	1,227	453	774
School districts	1,301	1,301	-
Multi-level governmental units	394	-	394
Other	35,134	10,506	24,628
	<u>165,443</u>	<u>121,076</u>	<u>44,367</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	<u>585,179</u>	<u>585,179</u>	<u>-</u>
	585,179	585,179	-

Continued on next page.

STATE OF MICHIGAN
COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL AND SPECIAL REVENUE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

SOURCE	TOTAL	GENERAL FUND	SPECIAL REVENUE FUNDS
FROM SERVICES			
Charges for furnishing vehicle driver records	\$ 28,115	\$ 28,115	\$ -
Revenue for patient, ward, and inmate care	28,710	28,710	-
Other	50,797	50,291	506
	<u>107,623</u>	<u>107,117</u>	<u>506</u>
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	11,764	11,764	-
Motor vehicle operators' and chauffeurs' licenses	38,721	26,682	12,039
Examination fees - financial institutions and insurance industry	19,360	19,360	-
Concession and privilege fees - State parks	16,869	-	16,869
Motor vehicle related	59,776	4,090	55,686
Hunting, fishing, and trapping licenses	45,942	2	45,941
Public utility assessment fees	17,214	17,214	-
Consumer and Industry Services licenses and permits	77,083	64,970	12,113
Auto repair facilities and mechanics licenses and fees	4,356	4,356	-
Corporation franchise fees	7,198	7,198	-
Other	78,625	44,860	33,765
	<u>376,909</u>	<u>200,496</u>	<u>176,413</u>
MISCELLANEOUS			
Income from investments	144,931	7,262	137,670
Various fines, fees, and assessments	46,053	45,565	489
Court fines, fees, and assessments	90,378	84,798	5,580
Oil and gas royalties, fees, assignments, and rentals	44,838	5,848	38,989
Environmental pollution settlements	10,286	3,102	7,183
State Fair revenue	6,696	6,696	-
Child support	62,326	62,326	-
Other	295,045	202,690	92,356
	<u>700,553</u>	<u>418,286</u>	<u>282,267</u>
Total Revenues	<u>30,241,222</u>	<u>18,949,848</u>	<u>11,291,374</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	251,454	-	251,454
Capital lease acquisitions	29,027	26,518	2,508
Operating transfers from other funds:			
From Liquor Purchase Revolving Fund	104,183	104,183	-
From State Lottery Fund	624,086	7,976	616,110
From Escheats Fund	43,267	43,267	-
From other funds	1,637,169	140,542	1,496,627
Operating transfers from component units	187	187	-
Total Other Financing Sources	<u>2,689,372</u>	<u>322,673</u>	<u>2,366,699</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 32,930,594</u>	<u>\$ 19,272,521</u>	<u>\$ 13,658,074</u>

STATE OF MICHIGAN
SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

SOURCE	TOTAL	GENERAL PURPOSE	RESTRICTED REVENUES
TAXES			
Sales	\$ 1,462,833	\$ 90,568	\$ 1,372,265
Personal income	5,093,751	4,547,253	546,498
Single business	2,349,148	2,320,478	28,671
Use	772,839	765,560	7,278
Tobacco products	203,071	139,819	63,253
Beer and wine	50,306	50,306	-
Liquor	49,182	24,607	24,575
Horse race wagering	12,709	-	12,709
Intangibles	45,012	44,942	70
Estate and inheritance	110,383	110,381	2
Telephone and telegraph company	151,964	151,964	-
Insurance company	142,565	142,493	72
Motor vehicle weight	544	-	544
Gasoline	1	1	-
Gas and oil severance	30,982	30,124	858
Convention hotel accommodation	15,619	-	15,619
Airport parking	13,593	(676)	14,269
Penalties and interest	122,939	115,169	7,769
Other	5,975	5,943	32
	<u>10,633,414</u>	<u>8,538,931</u>	<u>2,094,483</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	4,945,756	29,500	4,916,256
Department of Education	586,677	3,416	583,261
Department of Agriculture	1,007,567	3,959	1,003,608
Department of Labor	103,058	1,060	101,998
Department of Housing and Urban Development	52,986	102	52,883
Environmental Protection Agency	24,138	-	24,138
Department of Energy	9,244	26	9,218
Department of Transportation	10,401	189	10,212
Department of Interior	13,554	37	13,517
Department of Defense	19,078	-	19,078
Department of Justice	41,615	120	41,496
Other	70,206	5,959	64,247
	<u>6,884,279</u>	<u>44,368</u>	<u>6,839,911</u>
FROM LOCAL AGENCIES			
Counties	108,584	109	108,475
Cities, villages, and townships	233	45	188
Colleges and universities	453	-	453
School districts	1,301	-	1,301
Other	10,506	769	9,737
	<u>121,076</u>	<u>923</u>	<u>120,154</u>
SPECIAL MEDICAID REIMBURSEMENTS			
	585,179	-	585,179
	<u>585,179</u>	<u>-</u>	<u>585,179</u>
FROM SERVICES			
Charges for furnishing vehicle driver records	28,115	1,600	26,515
Revenue for patient, ward, and inmate care	28,710	(690)	29,400
Other	50,291	7,524	42,768
	<u>107,117</u>	<u>8,434</u>	<u>98,683</u>

Continued on next page.

STATE OF MICHIGAN
SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL FUND (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

SOURCE	TOTAL	GENERAL PURPOSE	RESTRICTED REVENUES
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	\$ 11,764	\$ -	\$ 11,764
Motor vehicle operators' and chauffeurs' licenses	26,682	3,833	22,849
Examination fees - financial institutions and insurance industry	19,360	-	19,360
Motor vehicle related	4,090	751	3,339
Hunting, fishing, and trapping licenses	2	-	2
Public utility assessment fees	17,214	-	17,214
Consumer and Industry Services licenses and permits	64,970	18,100	46,870
Auto repair facilities and mechanics licenses and fees	4,356	30	4,326
Corporation franchise fees	7,198	301	6,897
Other	44,860	1,026	43,834
	<u>200,496</u>	<u>24,041</u>	<u>176,455</u>
MISCELLANEOUS			
Income from investments	7,262	245	7,017
Various fines, fees, and assessments	45,565	5,518	40,047
Court fines, fees, and assessments	84,798	3,094	81,704
Oil and gas royalties, fees, assignments, and rentals	5,848	(311)	6,159
Environmental pollution settlements	3,102	-	3,102
State Fair revenue	6,696	-	6,696
Child support	62,326	-	62,326
Other	202,690	48,220	154,469
	<u>418,286</u>	<u>56,765</u>	<u>361,521</u>
 Total Revenues	 <u>18,949,848</u>	 <u>8,673,462</u>	 <u>10,276,385</u>
OTHER FINANCING SOURCES			
Capital lease acquisitions	26,518	26,518	-
Operating transfers from other funds:			
From Liquor Purchase Revolving Fund	104,183	96,707	7,476
From State Lottery Fund	7,976	7,976	-
From Escheats Fund	43,267	38,976	4,291
From other funds	140,542	66,772	73,770
Operating transfers from component units	187	-	187
	<u>322,673</u>	<u>236,949</u>	<u>85,724</u>
 Total Other Financing Sources	 <u>322,673</u>	 <u>236,949</u>	 <u>85,724</u>
 Total Revenue and Other Financing Sources (GAAP Basis)	 <u>19,272,521</u>	 <u>8,910,411</u>	 <u>10,362,109</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease acquisitions	(26,518)	(26,518)	-
 Total Revenue and Other Financing Sources (budgetary basis)	 <u>\$ 19,246,002</u>	 <u>\$ 8,883,893</u>	 <u>\$ 10,362,109</u>

STATE OF MICHIGAN
SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION**	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	UNEXPENDED FROM PRIOR YEAR	RESTRICTED REVENUE ADDITIONS	LESS: TIMING DIFFERENCES*	GROSS SPENDING AUTHORITY
						RESTRICTED REVENUE NOT AUTHORIZED	
Legislative Branch	\$ 134,344	\$ (120)	\$ 229	\$ 22,937	\$ 8,435	\$ (96)	\$ 165,729
Judicial Branch	150,955	(280)	-	14,742	55,882	(5,105)	216,194
Executive Branch:							
Agriculture	34,636	2	-	11,238	36,045	(8,217)	73,703
Attorney General	29,272	-	-	55	14,151	(41)	43,437
Civil Rights	12,074	-	-	1,548	1,269	-	14,891
Civil Service	19,226	-	-	1,366	15,026	-	35,618
Colleges and Universities Grants	1,861,976	-	-	17,689	3,183	-	1,882,848
Community Health	2,474,525	490	138	48,162	4,816,505	(58,836)	7,280,984
Consumer and Industry Services	74,325	8	-	46,996	189,909	(51,500)	259,739
Corrections	1,330,269	-	-	19,676	38,520	(2,866)	1,385,599
Education	424,330	-	-	5,341	724,825	(2,244)	1,152,252
Environmental Quality	34,502	-	-	84,835	68,130	(39,052)	148,414
Executive Office	4,932	-	-	219	-	-	5,151
Family Independence Agency	1,070,891	-	-	24,547	2,246,030	(1,209)	3,340,259
Management and Budget	400,822	(490)	131	106,471	102,656	(39,447)	570,144
Michigan Jobs Commission	113,366	-	1,654	46,222	299,364	(9)	460,598
Military and Veterans Affairs	35,154	-	-	7,035	40,630	(2,376)	80,443
Natural Resources	57,883	-	31	29,344	43,119	(25,872)	104,504
State	60,041	-	-	18,416	89,860	(8,315)	160,001
State Police	251,129	(10)	-	36,173	101,257	(21,587)	366,963
Transportation	19,000	-	-	-	-	-	19,000
Treasury	185,226	-	-	234,666	2,061,936	(215,882)	2,265,946
Intrafund expenditure reimbursements	-	-	-	-	-	-	-
TOTAL	\$ 8,778,877	\$ (400)	\$ 2,183	\$ 777,678	\$ 10,956,732	\$ (482,653)	\$ 20,032,416

*Unused spending authority which does not lapse has been divided into two categories:

Timing differences are subtracted from Gross Spending Authority in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multi-year projects (capital outlay and work projects) and restricted revenues which were not available for expenditure in the current year because they had not been appropriated.

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

**Appropriation revisions of \$33.2 million were made in FY98 to account for programs from previous appropriation years that were transferred to other appropriated funds. This resulted in reductions to "current legislative appropriation" which totaled \$8.8 billion before the appropriation revisions were recorded.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

STATE OF MICHIGAN
SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS
 FISCAL YEAR ENDED SEPTEMBER 30, 1998
 (In Thousands)

BRANCH AND DEPARTMENT	"BUDGET"		"ACTUAL"		"FAVORABLE VARIANCES"		"UNFAVORABLE VARIANCES"
	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
Legislative Branch	\$ (24,768)	\$ 140,961	\$ 138,190	\$ 1,049	\$ 254	\$ 1,468	\$ -
Judicial Branch	(8,798)	207,396	204,600	2,448	-	348	-
Executive Branch:							
Agriculture	(343)	73,360	71,830	1,247	-	284	-
Attorney General	(142)	43,295	42,884	251	-	160	-
Civil Rights	(894)	13,998	13,245	716	-	107	(70)
Civil Service	(5,862)	29,756	28,207	1,499	-	50	-
Colleges and Universities Grants	(8,727)	1,874,120	1,871,417	2,175	-	528	-
Community Health	(5)	7,280,978	7,252,535	15,846	4,393	41,795	(33,591)
Consumer and Industry Services	(792)	258,947	255,076	1,405	120	2,347	-
Corrections	(45,899)	1,339,700	1,306,655	18,035	-	15,018	(8)
Education	(525)	1,151,727	1,145,850	3,175	-	2,702	-
Environmental Quality	(22,008)	126,406	121,762	4,574	-	70	-
Executive Office	-	5,151	5,118	2	-	30	-
Family Independence Agency	(27,798)	3,312,461	3,277,290	1,858	-	39,600	(6,288)
Management and Budget	(154,875)	415,269	373,502	8,778	-	32,989	-
Michigan Jobs Commission	(1,274)	459,324	406,491	39,944	-	12,888	-
Military and Veterans Affairs	(1,575)	78,868	75,223	1,447	1,389	809	-
Natural Resources	(11,831)	92,673	91,408	594	-	671	-
State	(3,770)	156,231	148,645	5,733	657	1,207	(12)
State Police	(11,548)	355,415	347,462	7,226	3	724	-
Transportation	(18,001)	999	999	-	-	-	-
Treasury	(21,030)	2,244,916	2,237,548	4,809	1,479	1,080	-
Intrafund expenditure reimbursements	-	(594,733)	(594,733)	-	-	-	-
TOTAL	\$ (370,464)	\$ 19,067,218	\$ 18,821,205	\$ 122,811	\$ 8,294	\$ 154,876	\$ (39,968)

*Unused spending authority which does not lapse has been divided into two categories:

Timing differences are subtracted from Gross Spending Authority in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multi-year projects (capital outlay and work projects) and restricted revenues which were not available for expenditure in the current year because they had not been appropriated.

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

**Appropriation revisions of \$33.2 million were made in FY98 to account for programs from previous appropriation years that were transferred to other appropriated funds. This resulted in reductions to "current legislative appropriation" which totaled \$8.8 billion before the appropriation revisions were recorded.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

STATE OF MICHIGAN
**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 1998**
FISCAL YEAR ENDED SEPTEMBER 30, 1998
(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	GROSS SPENDING AUTHORITY
Legislative Branch	\$ 134,344	\$ (1,463)	\$ 229	\$ 133,109
Judicial Branch	150,955	(280)	-	150,675
Executive Branch:				
Agriculture	34,636	2	-	34,638
Attorney General	29,272	-	-	29,272
Civil Rights	12,074	-	-	12,074
Civil Service	19,226	-	-	19,226
Colleges and Universities Grants	1,861,976	-	-	1,861,976
Community Health	2,475,048	490	138	2,475,675
Consumer and Industry Services	74,325	(2)	-	74,324
Corrections	1,330,269	-	-	1,330,269
Education	424,330	-	-	424,330
Environmental Quality	67,720	-	-	67,720
Executive Office	4,932	-	-	4,932
Family Independence Agency	1,070,891	-	-	1,070,891
Management and Budget	398,550	(490)	131	398,192
Michigan Jobs Commission	116,485	-	1,654	118,139
Military and Veterans Affairs	35,154	-	-	35,154
Natural Resources	57,883	-	31	57,913
State	60,041	-	-	60,041
State Police	251,129	-	-	251,129
Transportation	19,000	-	-	19,000
Treasury	185,226	-	-	185,226
TOTAL	\$ 8,813,465	\$ (1,743)	\$ 2,182	\$ 8,813,904

STATE OF MICHIGAN
**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 1998**

FISCAL YEAR ENDED SEPTEMBER 30, 1998

(In Thousands)

BRANCH AND DEPARTMENT	"ACTUAL"			"FAVORABLE VARIANCES"	"UNFAVORABLE VARIANCES"
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
Legislative Branch	\$ 122,938	\$ 849	\$ 7,997	\$ 1,324	\$ -
Judicial Branch	139,557	1,976	8,798	344	-
Executive Branch:					
Agriculture	33,394	691	304	248	-
Attorney General	28,731	251	142	148	-
Civil Rights	11,424	619	-	102	(70)
Civil Service	11,864	1,499	5,862	-	-
Colleges and Universities Grants	1,858,235	-	3,312	430	-
Community Health	2,431,026	4,619	5	41,270	(1,246)
Consumer and Industry Services	70,794	1,049	220	2,260	-
Corrections	1,262,750	13,706	39,500	14,314	-
Education	418,324	2,810	525	2,671	-
Environmental Quality	52,763	2,566	12,362	29	-
Executive Office	4,909	2	-	21	-
Family Independence Agency	1,013,876	704	23,262	39,291	(6,241)
Management and Budget	239,839	2,213	126,676	29,463	-
Michigan Jobs Commission	81,757	25,682	100	10,600	-
Military and Veterans Affairs	33,713	693	404	343	-
Natural Resources	46,189	408	10,689	627	-
State	55,312	2,020	1,586	1,135	(12)
State Police	240,101	5,602	4,849	577	-
Transportation	999	-	18,001	-	-
Treasury	164,529	2,659	17,012	1,025	-
TOTAL	\$ 8,323,026	\$ 70,618	\$ 281,607	\$ 146,222	\$ (7,570)



Michigan agriculture has strength through incredible diversity. State farmers produce 125 commodities on a commercial basis. Michigan has more different varieties of crops than every other state but California. Michigan farmers lead the nation in production of tart cherries (shown); black, cranberry and navy beans; blueberries; pickling cucumbers; Easter lilies; geraniums; petunias; and flowering hanging baskets.



The Michigan Department of Agriculture has oversight of the Upper and Lower Peninsula Michigan State Fairs, and provides some services to Michigan's 88 county and local fairs. About 5.5 million Michigan residents attend these fairs annually, many getting their only exposure to agriculture.

STATE OF MICHIGAN
REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS
GENERAL AND SPECIAL REVENUE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

SOURCE	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993
TAXES:					
Sales	\$ 2,615,209	\$ 2,671,268	\$ 2,671,853	\$ 2,738,147	\$ 2,905,665
Personal Income (net of tax expenditures)	3,766,158	3,907,701	3,810,264	3,927,931	4,204,772
Amount reported as tax expenditures	-	-	856,800	964,700	975,200
Single Business	1,845,444	1,798,605	1,573,666	1,685,052	1,791,128
Use	475,856	473,919	474,278	479,979	529,532
State Education (Property)	-	-	-	-	-
Real Estate Transfer	-	-	-	-	-
Liquor, Beer, Wine, and Tobacco Products	378,807	369,873	375,478	360,461	358,887
Telephone and Telegraph Company	138,734	142,271	143,695	145,199	149,613
Insurance Company	76,601	78,647	175,973	178,304	188,196
Motor Vehicle and Fuel	1,090,727	1,148,361	1,152,595	1,185,774	1,244,816
Other	463,359	471,755	487,658	566,646	518,496
TOTAL TAXES	10,850,896	11,062,400	11,722,260	12,232,193	12,866,305
FEDERAL AGENCIES	3,937,503	4,215,677	4,820,694	5,379,072	5,923,406
LOCAL AGENCIES	141,089	161,574	154,282	178,660	148,956
SPECIAL MEDICAID REIMBURSEMENTS	-	-	400,935	454,257	738,026
SERVICES	105,582	102,551	115,280	107,939	110,543
LICENSES AND PERMITS	251,811	264,454	275,014	288,764	302,481
MISCELLANEOUS	373,121	428,895	420,839	448,480	427,227
TOTAL REVENUE	15,660,002	16,235,551	17,909,303	19,089,364	20,516,944
PROCEEDS FROM BOND ISSUES	3,400	225,507	7,967	461,957	14,179
CAPITAL LEASE ACQUISITIONS	57,250	62,905	36,990	24,349	18,304
TOTAL REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS	\$ 15,720,651	\$ 16,523,963	\$ 17,954,259	\$ 19,575,671	\$ 20,549,427

NOTES:

- (1) Beginning in fiscal year 1990-91, the State began reporting certain personal income tax credits as expenditures, rather than as revenue reductions. Amounts of such credits for years prior to 1990-91 are not available.
- (2) Revenue from special medicaid reimbursements resulted from a program providing funding for Medicaid which did not exist prior to 1990-91. Prior year amounts have been reclassified to include contributions by local units of government which were previously reported on the "Local Agencies" line.
- (3) Beginning in fiscal year 1996-97, the State began reporting the federal share of child support collections as federal revenue, rather than as miscellaneous revenue. Prior year amounts have been reclassified to include the federal revenue which were previously reported on the "Miscellaneous" line.
- (4) Beginning in fiscal year 1997-98, the State began reporting real estate transfer tax separately from State education (property) tax. Amounts of the real estate transfer tax for years prior to 1997-98 are not available.

STATE OF MICHIGAN
REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS
GENERAL AND SPECIAL REVENUE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

SOURCE	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998
TAXES:					
Sales	\$ 3,775,260	\$ 4,884,198	\$ 5,171,598	\$ 5,389,802	\$ 5,617,331
Personal Income (net of tax expenditures)	4,461,416	5,013,472	5,438,788	5,930,404	6,316,125
Amount reported as tax expenditures	1,067,700	459,600	429,618	470,000	477,000
Single Business	2,035,394	2,130,395	2,187,418	2,224,319	2,349,148
Use	725,091	942,885	1,034,886	1,092,216	1,159,258
State Education (Property)	446,863	1,155,601	1,272,288	1,348,832	1,256,874
Real Estate Transfer	-	-	-	-	227,852
Liquor, Beer, Wine, and Tobacco Products	510,312	734,645	698,007	662,287	689,451
Telephone and Telegraph Company	122,477	127,189	135,412	145,805	151,964
Insurance Company	194,442	213,638	205,996	182,389	142,565
Motor Vehicle and Fuel	1,287,765	1,338,692	1,334,349	1,424,963	1,695,068
Other	455,788	468,399	611,716	569,300	543,391
TOTAL TAXES	15,082,510	17,468,714	18,520,076	19,440,316	20,626,025
FEDERAL AGENCIES	6,370,178	6,532,050	7,469,416	7,653,495	7,679,490
LOCAL AGENCIES	156,267	183,282	197,972	168,247	165,443
SPECIAL MEDICAID REIMBURSEMENTS	900,461	490,517	598,654	593,402	585,179
SERVICES	113,757	122,532	120,415	114,354	107,623
LICENSES AND PERMITS	328,978	348,873	353,266	353,492	376,909
MISCELLANEOUS	478,194	655,578	701,004	655,963	700,553
TOTAL REVENUE	23,430,346	25,801,546	27,960,804	28,979,270	30,241,222
PROCEEDS FROM BOND ISSUES	166,036	541,881	6,149	54,021	251,454
CAPITAL LEASE ACQUISITIONS	8,778	23,782	71,810	54,157	29,027
TOTAL REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS	\$ 23,605,160	\$ 26,367,209	\$ 28,038,762	\$ 29,087,448	\$ 30,521,703

STATE OF MICHIGAN
SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

	<u>1988 - 1989</u>	<u>1989 - 1990</u>	<u>1990 - 1991</u>	<u>1991 - 1992</u>	<u>1992 - 1993</u>
Current:					
General government	\$ 742,937	\$ 798,812	\$ 885,173	\$ 935,530	\$ 906,287
Education	4,197,673	4,554,731	4,814,276	4,898,512	5,226,199
Family independence services (2)	5,043,127	5,528,554	6,213,263	6,209,410	6,964,193
Public safety and corrections	879,121	991,239	1,054,737	1,189,233	1,298,270
Conservation, environment, recreation, and agriculture	297,720	361,663	351,440	357,647	367,688
Labor, commerce, and regulatory	610,344	628,903	592,320	597,427	590,282
Health services (2)	1,164,364	1,244,269	1,323,303	1,304,679	1,370,988
Transportation	1,031,774	1,090,663	1,095,385	1,174,803	1,240,270
Items not assigned to a function	6	-	-	-	-
Tax expenditures (1)	-	-	856,800	964,700	975,200
Capital outlay	521,923	500,607	524,731	517,777	538,647
Intergovernmental - revenue sharing	1,021,120	1,064,969	1,049,252	956,102	1,063,608
Debt service - capital lease payments	43,347	41,331	51,498	47,515	39,279
Total Expenditures	<u>\$ 15,553,456</u>	<u>\$ 16,805,741</u>	<u>\$ 18,812,178</u>	<u>\$ 19,153,334</u>	<u>\$ 20,580,911</u>

NOTE:

(1 Beginning in fiscal year 1990-91 the State began reporting certain personal income tax credits as expenditures, rather than as revenue reductions. Amounts of such credits for years prior to 1990-91 are not available.

(2 Beginning in fiscal year 1996-97 the State consolidated the Medical Services Administration (MSA), the Departments of Public Health and Mental Health to form the Department of Community Health and accounted for the combined operations as "Health services." MSA and Public Health expenditures were previously reported as "Health and Welfare," which was renamed to "Family independence services." Prior year amounts have not been restated.

STATE OF MICHIGAN
SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

	<u>1993 - 1994</u>	<u>1994 - 1995</u>	<u>1995 - 1996</u>	<u>1996 - 1997</u>	<u>1997 - 1998</u>
Current:					
General government	\$ 844,696	\$ 970,101	\$ 1,061,865	\$ 1,060,633	\$ 1,003,062
Education	6,032,718	9,781,080	10,219,613	10,568,759	11,462,128
Family independence services (2)	7,596,169	7,389,722	8,619,094	3,496,468	3,262,649
Public safety and corrections	1,403,525	1,557,854	1,683,618	1,738,682	1,720,105
Conservation, environment, recreation, and agriculture	518,336	639,425	511,459	440,656	446,377
Labor, commerce, and regulatory	658,148	704,191	716,571	756,754	763,484
Health services (2)	1,428,218	1,471,392	1,501,080	6,563,740	6,781,614
Transportation	1,297,326	1,352,745	1,392,778	1,459,704	1,556,082
Items not assigned to a function	-	-	-	-	-
Tax expenditures (1)	1,067,700	459,600	429,618	470,000	477,000
Capital outlay	523,512	625,390	608,159	716,835	898,509
Intergovernmental - revenue sharing	1,136,127	1,190,838	1,281,089	1,301,153	1,381,009
Debt service - capital lease payments	36,341	38,523	44,932	57,562	58,905
Total Expenditures	<u>\$ 22,542,815</u>	<u>\$ 26,180,861</u>	<u>\$ 28,069,878</u>	<u>\$ 28,630,947</u>	<u>\$ 29,810,925</u>

STATE OF MICHIGAN
**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION
 BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS**
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST AND FISCAL CHARGES</u>	<u>TOTAL DEBT SERVICE EXPENDITURES</u>	<u>TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS</u>	<u>RATIO OF DEBT SERVICE EXPENDITURES TO GENERAL FUND EXPENDITURES AND TRANSFERS</u>
1988-1989	\$ 26,500	\$ 6,643	\$ 33,143	\$ 12,261,036	.27 %
1989-1990	22,400	7,547	29,947	13,427,564	.22 %
1990-1991	23,565	9,557	33,122	15,386,993	.22 %
1991-1992	27,282	8,184	35,466	15,500,936	.23 %
1992-1993	19,342	18,341	37,683	17,120,555	.22 %
1993-1994	20,795	19,895	40,690	17,989,224	.23 %
1994-1995	23,584	19,081	42,665	17,549,649	.24 %
1995-1996	21,097	33,150	54,246	18,755,877	.29 %
1996-1997	29,857	34,143	64,000	18,571,900	.34 %
1997-1998	31,141	32,676	63,817	18,847,724	.34 %

NOTE: Principal and interest on short-term general obligation notes are not included in this bonded debt schedule.

STATE OF MICHIGAN
NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>GROSS BONDED DEBT</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED DEBT</u>	<u>NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1988-1989	9,281	\$ 106,400	\$ 5,444	\$ 100,956	\$ 10.88
1989-1990	9,314	189,320	6,538	182,782	19.62
1990-1991	9,390	175,202	9,733	165,469	17.62
1991-1992	9,465	397,067	-	397,067	41.95
1992-1993	9,523	394,950	-	394,950	41.47
1993-1994	9,586	394,278	-	394,278	41.13
1994-1995	9,663	719,222	-	719,222	74.43
1995-1996	9,734	702,486	-	702,486	72.17
1996-1997	9,780	677,277	-	677,277	69.25
1997-1998	9,817	901,103	-	901,103	91.79

*SOURCE: U. S. Department of Commerce, Bureau of the Census and Michigan Department of Management and Budget.

STATE OF MICHIGAN
STATE BUILDING AUTHORITY (SBA) BONDED DEBT PER CAPITA
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Thousands)

<u>FISCAL YEAR</u>	<u>POPULATION*</u>	<u>SBA GROSS BONDED DEBT</u>	<u>LESS SBA DEBT SERVICE FUNDS</u>	<u>SBA NET BONDED DEBT</u>	<u>SBA NET BONDED DEBT PER CAPITA (IN DOLLARS)</u>
1988-1989	9,281	\$ 993,700	\$ 213,785	\$ 779,915	\$ 84.03
1989-1990	9,314	1,083,600	234,119	849,481	91.20
1990-1991	9,390	1,237,192	279,775	957,416	101.96
1991-1992	9,465	1,490,815	187,184	1,303,631	137.73
1992-1993	9,523	1,453,140	109,494	1,343,647	141.09
1993-1994	9,586	1,494,440	150,972	1,343,468	140.15
1994-1995	9,663	1,453,420	170,478	1,282,942	132.77
1995-1996	9,734	1,478,896	171,244	1,307,652	134.34
1996-1997	9,780	1,616,700	193,219	1,423,481	145.55
1997-1998	9,817	1,996,787	245,050	1,751,737	178.44

NOTE: State Building Authority (SBA) bonds are revenue dedicated bonds whose debt service requirements are financed by General Fund appropriations for rent of leased property, excess bond proceeds, and investment earnings. The bonds of the Authority are not considered direct debts or obligations of the State.

*SOURCE: U. S. Department of Commerce, Bureau of the Census and Michigan Department of Management and Budget.

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS
LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Millions)

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Constitutionally Restricted					
Transportation Fund Revenues:					
Motor Fuel Taxes	\$ 680.0	\$ 680.6	\$ 676.6	\$ 686.6	\$ 724.9
Registration Taxes	397.0	409.8	420.2	441.8	462.5
Miscellaneous Fees	<u>63.5</u>	<u>61.2</u>	<u>59.9</u>	<u>61.8</u>	<u>64.4</u>
Total	1,140.5	1,151.6	1,156.7	1,190.2	1,251.8
Less Deductions	<u>83.3</u>	<u>84.7</u>	<u>88.2</u>	<u>90.8</u>	<u>96.5</u>
Remaining Balance	1,057.2	1,066.9	1,068.5	1,099.4	1,155.3
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>105.5</u>	<u>106.4</u>	<u>107.0</u>	<u>110.0</u>	<u>115.8</u>
Motor Vehicle Related Sales Tax Revenues	\$ 637.2	\$ 653.2	\$ 605.1	\$ 639.0	\$ 701.9
Allocation to Comprehensive Transportation Fund	<u>44.4</u>	<u>45.6</u>	<u>42.2</u>	<u>32.8</u>	<u>43.9</u>
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 149.9	\$ 152.0	\$ 149.2	\$ 142.8	\$ 159.7
Plus Other Revenues (primarily interest)	<u>7.7</u>	<u>5.9</u>	<u>3.4</u>	<u>1.1</u>	<u>1.3</u>
Money Available for Debt Service	<u>157.6</u>	<u>157.9</u>	<u>152.6</u>	<u>143.9</u>	<u>161.0</u>
Actual Annual Debt Service (1)	<u>20.9</u>	<u>20.7</u>	<u>20.6</u>	<u>17.0</u>	<u>20.1</u>
Debt Service Coverage	7.5 x	7.6 x	7.4 x	8.5 x	8.0

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

Source: Michigan Department of Transportation.

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS
LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Millions)

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Constitutionally Restricted					
Transportation Fund Revenues:					
Motor Fuel Taxes	\$ 729.0	\$ 756.3	\$ 761.7	\$ 821.0	\$ 1,022.7
Registration Taxes	494.3	521.2	564.5	596.5	664.8
Miscellaneous Fees	70.0	71.8	57.4	54.4	59.1
Total	<u>1,293.3</u>	<u>1,349.3</u>	<u>1,383.6</u>	<u>1,471.9</u>	<u>1,746.6</u>
Less Deductions	<u>100.2</u>	<u>103.8</u>	<u>113.4</u>	<u>116.9</u>	<u>117.9</u>
Remaining Balance	1,193.1	1,245.5	1,270.2	1,355.0	1,628.7
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	<u>120.7</u>	<u>125.8</u>	<u>129.0</u>	<u>132.0</u>	<u>145.3</u>
Motor Vehicle Related Sales Tax Revenues	\$ 768.5	\$ 747.1	\$ 837.5	\$ 799.4	\$ 834.7
Allocation to Comprehensive Transportation Fund	<u>53.6</u>	<u>55.6</u>	<u>58.4</u>	<u>58.8</u>	<u>60.3</u>
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 174.3	\$ 181.4	\$ 187.4	\$ 191.0	\$ 205.6
Plus Other Revenues (primarily interest)	<u>1.8</u>	<u>15.8</u>	<u>7.9</u>	<u>5.0</u>	<u>6.1</u>
Money Available for Debt Service	<u>176.1</u>	<u>197.2</u>	<u>195.3</u>	<u>196.0</u>	<u>211.7</u>
Actual Annual Debt Service (1)	<u>20.7</u>	<u>20.6</u>	<u>23.1</u>	<u>44.9</u>	<u>23.1</u>
Debt Service Coverage	x 8.5 x	9.6 x	8.5 x	4.4 x	9.2 x

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
STATE TRUNKLINE FUND RELATED BONDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Millions)

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Constitutionally Restricted					
Transportation Fund Revenues:					
Motor Fuel Taxes	\$ 680.0	\$ 680.6	\$ 676.6	\$ 686.6	\$ 724.9
Registration Taxes	397.0	409.8	420.2	441.8	462.5
Miscellaneous Fees	<u>63.5</u>	<u>61.2</u>	<u>59.9</u>	<u>61.8</u>	<u>64.4</u>
Total	1,140.5	1,151.6	1,156.7	1,190.2	1,251.8
Less Deductions:					
Critical Bridge Debt Service	-	-	-	-	-
P. A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	-	-
Collection Costs	70.9	72.3	76.0	78.4	83.6
Waterways/Recreational Improvement Fund	12.4	12.4	12.3	12.4	13.0
Comprehensive Transportation Fund (excluding interest)	105.5	106.4	107.0	110.0	115.8
Local Program Fund	-	-	-	-	20.0
Critical Bridge Fund	5.0	5.0	5.0	5.0	5.0
Economic Development Fund	<u>36.8</u>	<u>36.8</u>	<u>36.8</u>	<u>36.8</u>	<u>36.8</u>
Total Deductions	230.6	232.9	237.1	242.6	274.2
Constitutionally Restricted Revenues					
Available for Distribution	909.9	918.7	919.6	947.6	977.6
Plus Other Revenues (primarily interest)	<u>10.1</u>	<u>8.6</u>	<u>7.5</u>	<u>5.5</u>	<u>11.0</u>
Total Money Available for Distribution	920.0	927.3	927.1	953.1	988.6
Distributions to:					
Cities and Villages	202.0	204.1	204.5	209.4	217.9
County Road Commissions	359.0	361.6	361.3	371.3	385.0
State Trunkline Fund	359.0	361.6	361.3	372.4	385.7
State Trunkline Fund					
Money Available for Debt Service	359.0	361.6	361.3	372.4	385.7
P. A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	-	-
Economic Development Fund					
Money Available for Debt Service	36.8	36.8	36.8	36.8	36.8
Local Program Fund					
Money Available for Debt Service	-	-	-	-	20.0
Critical Bridge Fund					
Money Available for Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Available for Debt Service	395.8	398.4	398.1	409.2	442.5
Actual Annual Debt Service (2)	23.7	29.6	31.8	29.4	31.9
Debt Service Coverage	16.7 x	13.5 x	12.5 x	13.9 x	13.9 x

(1) Beginning fiscal year 1997-98, the formula for the tax distribution was revised to apportion and appropriate \$43 million from the Michigan Transportation Fund to the State Trunkline Fund for debt service costs on State of Michigan projects. Prior year amounts are not available.

(2) The table above excludes amounts related to refunded bonds.

SOURCE: Michigan Department of Transportation.

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
STATE TRUNKLINE FUND RELATED BONDS
 LAST TEN YEARS
 SEPTEMBER 30, 1998
 (In Millions)

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Constitutionally Restricted					
Transportation Fund Revenues:					
Motor Fuel Taxes	\$ 729.0	\$ 756.3	\$ 761.7	\$ 821.0	\$ 1,022.7
Registration Taxes	494.3	521.2	564.5	596.5	664.8
Miscellaneous Fees	<u>70.0</u>	<u>71.8</u>	<u>57.4</u>	<u>54.4</u>	<u>59.1</u>
Total	1,293.3	1,349.3	1,383.6	1,471.9	1,746.6
Less Deductions:					
Critical Bridge Debt Service	2.8	1.3	1.6	1.6	1.6
P. A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	-	43.0
Collection Costs	84.2	90.2	99.8	101.2	55.4
Waterways/Recreational Improvement Fund	13.2	13.4	13.6	14.1	17.9
Comprehensive Transportation Fund (excluding interest)	120.7	125.8	129.0	132.2	145.3
Local Program Fund	33.0	33.0	33.0	33.0	33.0
Critical Bridge Fund	5.0	5.0	5.0	5.0	5.0
Economic Development Fund	<u>36.8</u>	<u>36.8</u>	<u>36.8</u>	<u>36.8</u>	<u>40.3</u>
Total Deductions	295.7	305.5	318.8	323.9	341.5
Constitutionally Restricted Revenues					
Available for Distribution	997.6	1,043.8	1,064.7	1,148.1	1,405.1
Plus Other Revenues (primarily interest)	<u>5.5</u>	<u>12.7</u>	<u>18.8</u>	<u>59.7</u>	<u>13.9</u>
Total Money Available for Distribution	1,003.1	1,056.5	1,083.5	1,207.8	1,419.0
Distributions to:					
Cities and Villages	218.6	233.2	239.5	270.5	302.7
County Road Commissions	392.2	411.4	421.4	477.9	534.3
State Trunkline Fund	392.2	411.9	422.7	459.3	582.0
State Trunkline Fund					
Money Available for Debt Service	392.2	411.9	422.7	459.3	582.0
P. A. 51 Dedicated State Trunkline Fund Debt Service (1)	-	-	-	-	43.0
Economic Development Fund					
Money Available for Debt Service	36.8	36.8	36.8	36.8	40.3
Local Program Fund					
Money Available for Debt Service	33.0	33.0	33.0	33.0	33.0
Critical Bridge Fund					
Money Available for Debt Service	<u>2.8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.6</u>
Total Available for Debt Service	464.8	481.7	492.5	529.1	699.9
Actual Annual Debt Service (2)	34.5	42.5	58.2	59.7	61.4
Debt Service Coverage	13.5 x	11.3 x	8.5 x	8.9 x	11.4 x

STATE OF MICHIGAN
ECONOMIC AND SOCIAL DATA

GENERAL INFORMATION

On January 26, 1837, Michigan was admitted to the Union as the twenty-sixth state. It is located in the East North Central Census Region and is bordered by Canada and the states of Ohio, Indiana, and Wisconsin. Michigan contains 57,022 square miles of land mass (exclusive of 1,194 square miles of inland water and 38,575 square miles of great lakes water area) with 3,288 miles of shoreline on four of the five great lakes. A combined water and land area of 96,791 square miles makes it the tenth largest state.

POPULATION

The following table presents population trends for Michigan for the last ten years, estimated at September 30 (in thousands):

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Population	9,281	9,314	9,390	9,465	9,523	9,586	9,663	9,734	9,780	9,817
Percent Change	.4%	.4%	.8%	.8%	.6%	.7%	.8%	.7%	.5%	.4%

Source:

U.S. Department of Commerce, Bureau of the Census (adjusted to September 30 by the State of Michigan, Department of Management and Budget).

WEALTH

The following table presents per capita income, retail sales, taxable property, and bank deposits data for the last ten years:

YEAR	Per Capita Income (a)		Retail Sales (b)	State Equalized Value (c)	Bank Deposits (d)
	MI	U.S.	(In Billions)	(In Billions)	(In Billions)
1988	\$16,950	\$17,038	\$1,656.2	\$119.1	\$102.6
1989	17,987	18,153	1,750.0	128.8	104.9
1990	18,700	19,156	1,844.6	140.7	105.9
1991	19,021	19,624	1,855.9	150.9	109.5
1992	19,858	20,546	1,951.3	154.3	110.6
1993	20,937	21,220	2,073.8	167.9	111.8
1994	22,353	22,056	2,229.9	175.5	117.8
1995	23,434	23,063	2,329.3	186.4	117.4
1996	24,009	24,169	2,461.2	200.3	116.9
1997	24,998	25,298	2,556.2	216.7	117.6

Sources:

- (a) U.S. Department of Commerce, Bureau of Economic Analysis, September 1998 release.
- (b) U.S. Department of Commerce, Bureau of the Census. Michigan's retail sales information is no longer compiled by the Census Bureau.
- (c) State of Michigan, Department of Treasury, Property Tax Division.
- (d) State of Michigan, Department of Commerce, Financial Institutions Bureau. The amounts shown include state and national banks, state and federal credit unions, and state and federal savings banks.

STATE OF MICHIGAN
ECONOMIC AND SOCIAL DATA (Continued)

EMPLOYMENT

The following table presents employment data (expressed in thousands) for the State of Michigan for the last ten calendar years:

<u>Year</u>	<u>Total Labor Force</u>	<u>Total Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1988	4,543	4,198	345	7.6%
1989	4,593	4,267	326	7.1%
1990	4,598	4,248	350	7.6%
1991	4,592	4,165	427	9.3%
1992	4,690	4,274	417	8.9%
1993	4,753	4,418	335	7.1%
1994	4,823	4,539	285	5.9%
1995	4,814	4,556	258	5.3%
1996	4,909	4,670	239	4.9%
1997	4,986	4,776	210	4.2%

Source: Michigan Unemployment Agency.

Wage and salary employees for calendar years 1993-1997 consisted of the following (in thousands):

<u>Wage and Salary Employment</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Goods Producing Industries					
Manufacturing					
Durable Goods:					
Lumber & Wood Products	15.7	17.4	17.8	17.4	17.4
Furniture & Fixtures	34.4	36.9	38.0	37.9	38.7
Stone, Clay, and Glass Products	16.7	17.6	18.3	18.6	19.4
Primary Metals	36.2	37.2	38.1	36.9	36.6
Fabricated Metals	117.7	125.6	128.6	127.5	127.4
Industrial Machinery & Computer Equipment	118.7	127.2	134.4	133.7	135.4
Electrical Equipment except Computer	31.0	32.7	34.2	33.6	34.2
Transportation Equipment	278.4	289.0	298.6	294.9	289.3
Other Durable Goods	25.1	25.7	26.4	26.9	26.0
Total Durable Goods	673.9	709.3	734.4	727.4	724.4
Nondurable Goods:					
Food & Kindred Products	44.4	43.4	43.4	42.8	41.0
Textiles & Apparel	18.8	20.9	21.1	19.6	19.4
Paper & Allied Products	21.0	21.5	21.6	21.4	21.1
Printing & Publishing	44.9	44.9	43.9	43.8	43.7
Chemicals & Petroleum	46.6	45.9	45.3	45.1	45.1
Rubber & Miscellaneous Plastics	55.4	62.3	66.3	67.9	68.6
Other Nondurable Goods	3.3	3.4	3.7	3.7	3.9
Total Nondurable Goods	234.4	242.3	245.3	244.3	242.8
Total Manufacturing	908.3	951.6	979.7	971.7	967.2
Mining	8.8	8.7	8.4	7.6	7.6
Construction	132.7	142.6	152.7	168.0	180.3
Total Goods Producing Industries	1,049.8	1,102.8	1,140.8	1,147.3	1,155.1
Service Producing Industries					
Transportation, Communications, and Utilities	156.7	162.6	167.0	170.4	173.1
Wholesale Trade	200.3	206.4	214.2	219.6	226.8
Retail Trade	742.6	764.5	789.6	805.6	816.9
Finance, Insurance, and Real Estate	194.6	196.9	196.3	202.4	206.3
Services	1,022.4	1,074.6	1,125.1	1,171.6	1,218.7
Government	639.4	639.7	640.9	643.8	649.1
Total Service Producing Industries	2,956.0	3,044.8	3,133.0	3,213.4	3,290.9
Total Wage and Salary Employment	4,005.8	4,147.7	4,273.9	4,360.7	4,446.0

Source: Michigan Unemployment Agency.

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