

State of Michigan

Comprehensive Annual Financial Report



Fiscal Year Ended September 30, 2016
Governor Rick Snyder, CPA
Prepared by the State Budget Office





State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2016

RICK SNYDER, CPA
Governor

JOHN S. ROBERTS
State Budget Director

MICHAEL J. MOODY, CPA
Director
Office of Financial Management

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RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
STATE BUDGET OFFICE
LANSING

JOHN S. ROBERTS
DIRECTOR

January 31, 2017

The Honorable Rick Snyder, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2016.

INTRODUCTION TO THE REPORT

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

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

Report: The SOMCAFR is divided into four major sections: introductory, financial, statistical, and other information:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.
- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.
- The other information section includes General Fund and Special Revenue Funds revenue and expenditure schedules and General Fund source and disposition of spending authorization schedules.

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

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State of Michigan 457 Plans, the State of Michigan 401K Plans, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the State Budget Office relies upon the controls in place at the various State departments and agencies.

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

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

Internal Auditors: Pursuant to Executive Order 2007-31, the Office of Internal Audit Services (OIAS) provides internal audit services to executive branch departments and agencies. OIAS performs periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, OIAS also reviews department and agency management's processes for establishing, monitoring, and reporting on internal controls; advises department and agency management on internal control matters; and assists department and agency management with investigations of alleged fraud or other irregularities.

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and ten of the State's universities) and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2016 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2016 are fairly presented in accordance with GAAP and issued unmodified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act Amendments of 1996. Pursuant to Michigan Public Act 233 of 2012, an annual statewide single audit will be conducted for applicable State departments, agencies and component unit authorities, and will result in a separately issued audit report.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A immediately follows the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Michigan was admitted to the Union as the 26th state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: As of January 31, 2017, the Executive Branch consisted of 17 principal departments. Fourteen principal departments are headed by commissions and/or directors appointed by the elected governor. Elected officials head two principal departments, Attorney General and State, and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the State. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations.

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

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

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the publication of the SOMCAFR, the State releases a Statewide Authorization Dispositions report that provides line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

MAJOR INITIATIVES AND FUTURE PROJECTS

Addressing the Flint Water Crisis: The fiscal year 2016 and 2017 budgets include \$247 million to address the Flint water crisis. The funds are being used in a variety of ways, including reconnecting Flint to the Detroit water system; lead service line replacement; provision of direct relief to Flint residents through water bill credit support; performing water inspections and public health monitoring; laboratory services; providing residents with bottled water, water filters, and replacement cartridges; infusion of fruit, vegetable, and other nutritional support to Flint schools and the community at large; blood screening; plumbing inspections in schools, childcare, and health facilities; experts to assess potential linkages to Legionnaire's disease; and bringing in outside experts to conduct an integrity study of the infrastructure. The funds are also being used to address longer term health and developmental needs, such as specialists and staff, including nurses and epidemiologists; support for health care access for Flint children; payment for testing and studies; and the ongoing treatment of children.

Detroit Public Schools: In July 2016, legislation was enacted to address the Detroit Public Schools' academic and financial issues. The key element of the legislation is to maintain the existing school district to pay off the district's debt and establish a new school district to operate the schools. The legislation also earmarks up to \$617 million in tobacco settlement revenues to offset the loss of local operating revenues that are being diverted to pay off the district's debt.

Economic Growth: Creating an environment that promotes growth in the Michigan economy remains a top priority of the Snyder administration. To continue growing the Michigan economy, the fiscal year 2017 budget includes \$269 million for economic development and \$492 million for workforce development to assist Michigan businesses and communities, with a continued emphasis on talent, business attraction, and community revitalization.

During fiscal year 2012, the administration reached an agreement with Canada that laid the groundwork for the Gordie Howe International Bridge (GHIB). The GHIB will provide a modern, strategically located bridge between Detroit and Windsor that is vital to enhancing the trade relationship between Michigan and Canada. It is expected to generate thousands of short-term and long-term jobs, open new trade markets, strengthen economic security, and ease traffic congestion. On November 10, 2016, another major milestone was achieved when the bridge authority issued a request for proposals to three consortiums that were prequalified during the request for qualifications process.

Fiscal Stability: As Michigan continues to operate with a structurally balanced budget, Governor Snyder remains committed to building the state's savings and reducing the state's long-term liabilities. During fiscal year 2016, \$112.5

million was deposited into the Budget Stabilization Fund (or Rainy Day Fund), resulting in an ending fund balance of \$612.4 million. In addition to the annual \$17.5 million deposit from tobacco settlement revenues, the fiscal year 2017 budget includes an additional deposit of \$75.0 million from the general fund. The Rainy Day Fund balance is projected to be approximately \$705 million at September 30, 2017.

During fiscal year 2012, the state began prefunding retiree health care benefits and implemented various pension and retiree health care reforms for both state and public school employees. As a result, unfunded long-term liabilities have been reduced by over \$20 billion and state employee pension liabilities are expected to be fully funded by 2038. Paying down these liabilities improves Michigan's fiscal stability, while ensuring that employees can count on promised benefits when they retire.

State Infrastructure Investments: Investing in the State's infrastructure continues to be a priority for Governor Snyder. During calendar year 2015, the Governor worked with the Legislature to negotiate and pass a comprehensive, long-term transportation funding package. The package, which includes a combination of increased fuel taxes, vehicle registration fees, and general fund support, will be phased in over several years starting in fiscal year 2017. When all components of the package are fully in place, it will provide an annual increase of \$1.2 billion for roads and bridges.

In the interim, the fiscal year 2017 transportation budget includes \$533 million in increased dedicated transportation revenue, including \$189 million for the state trunkline fund, \$283 million for local road agencies, and \$51 million for rail and public transit.

Improving Our Citizen's Health: During fiscal year 2014, Michigan started the Healthy Michigan plan to provide health insurance administered through private and non-profit health insurance plans to low income families and individuals. Since then, over 600,000 Michigan residents have signed up for health insurance under the plan. This means that previously uninsured Michigan residents now have a primary care physician through a market-based approach to manage their health care. State costs are controlled through access to preventive health services, keeping the newly insured out of emergency rooms, while improving their quality of care and access to affordable health care. Individuals control their use of health care services and maintain healthy behaviors through financial incentives.

The fiscal year 2017 budget includes \$25.6 million to expand the Healthy Kids Dental Program to cover all eligible children in Michigan. This investment will bring the number of covered children to an estimated 827,000, compared to 285,000 who were covered during fiscal year 2011.

Education: Approximately \$14.2 billion is appropriated for school aid in fiscal year 2017, \$12.3 billion from state dollars. This funding supports the educational efforts of approximately 850 local school districts and public school academies, as well as 56 intermediate school districts.

Information Technology Investments: Recognizing the critical role that information technology plays in the delivery of services to citizens, public and private organizations, and State employees, the budgets for fiscal years 2013 through 2016 included \$222 million for the Information Technology Investment Fund (ITIF). The fiscal year 2017 budget includes \$69.5 million for the ITIF. These investments will bring greater efficiency to state government and also improve cybersecurity, system upgrades, and replacements of legacy computer systems.

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

Open Michigan also includes spending and accountability information that provides a one-stop resource showing how the state manages and spends taxpayer dollars and an open data portal that provides datasets that allow users to create their own method of accessing and viewing data.

The spotlight cast by Open Michigan requires that elected officials and state leaders continually evaluate the efficiency and effectiveness of programs to determine if they are delivering the desired results. Further, it provides an honest

representation of where Michigan stands relative to national benchmarks, identifying strengths, but also illuminating areas where improvement is needed.


AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 29 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the Office of Internal Audit Services; the chief financial officers, chief accountants, and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

Sincerely,



John S. Roberts
State Budget Director



Michael J. Moody, CPA
Director, Office of Financial Management



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

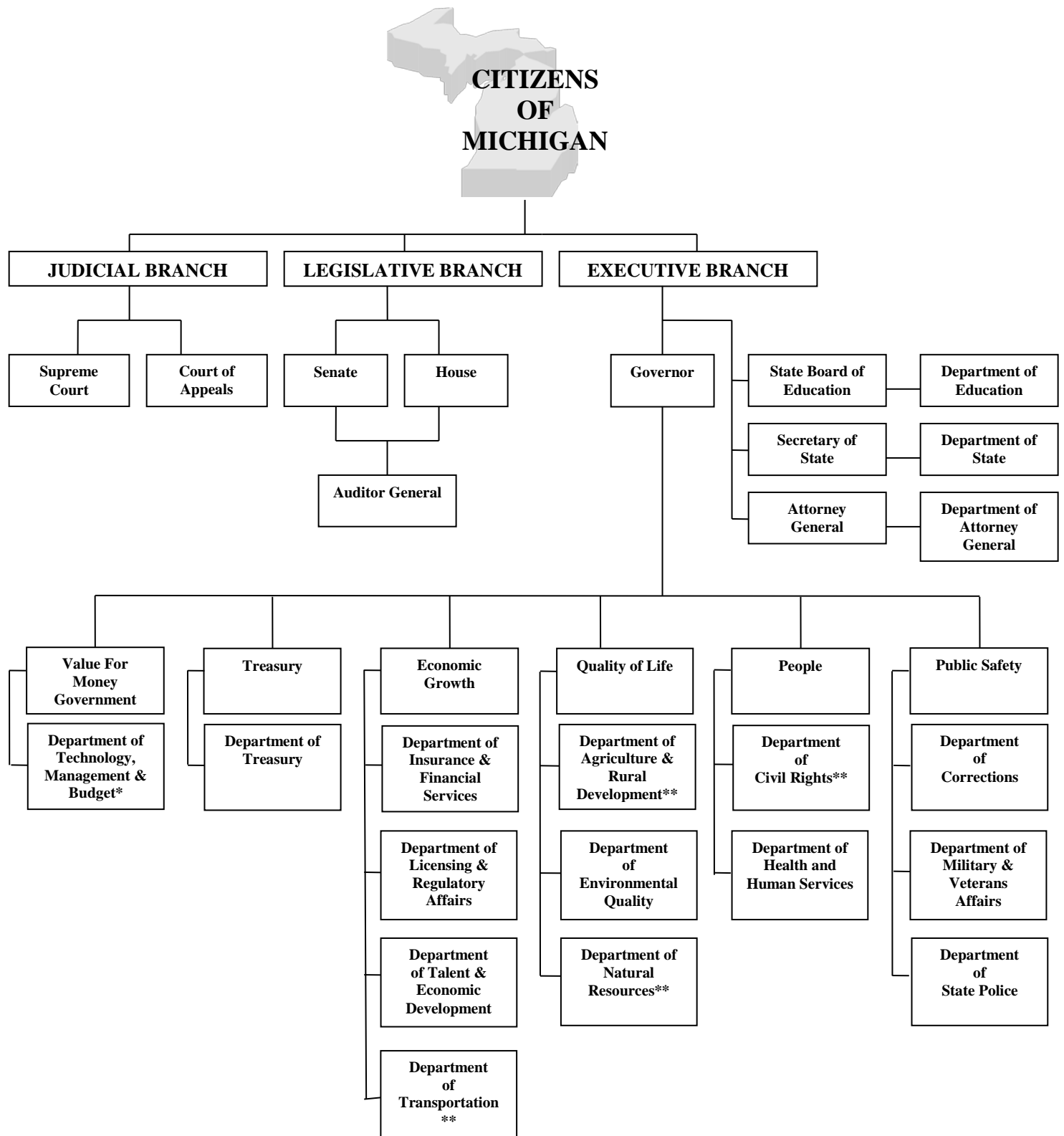
September 30, 2015



Executive Director/CEO

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE

(As of December 31, 2016)



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

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS
(As of January 27, 2017)

JUDICIAL BRANCH

Supreme Court Justices
Honorable Stephen J. Markman, Chief Justice
Honorable Richard Bernstein, Justice
Honorable Joan L. Larsen, Justice
Honorable Bridget Mary McCormack, Justice
Honorable David F. Viviano, Justice
Honorable Robert P. Young, Jr, Justice
Honorable Brian K. Zahra, Justice

LEGISLATIVE BRANCH

Honorable Arlan Meekhof
Majority Leader of the Senate

Honorable Tom Leonard
Speaker of the House of Representatives

Doug Ringler, C.P.A., C.I.A.
Legislative Auditor General

EXECUTIVE BRANCH

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

Group Executives

David B. Behen, Value for Money Government
Nick A. Khouri, Treasury
Steve Arwood, Economic Growth
Keith Creagh, Quality of Life
Nick Lyon, People, Health & Education
Major General Gregory J. Vadnais, Public Safety

State Board of Education

Cassandra E. Ulbrich, Co-President
Richard Zeile, Co-President
Michelle Fecteau, Secretary
Tom McMillin, Treasurer
Pamela Pugh
Lupe Ramos-Montigny
Nikki Snyder
Eileen Weiser
Marilyn Schneider, State Board Executive
Honorable Rick Snyder (Ex Officio)
Brian J. Whiston,
Superintendent of Public Instruction

Michigan Commission of Agriculture & Rural Development

Fred Walcott, Chair
Dru Montri, Vice Chair
Bob Kennedy, Secretary
Diane Hanson
Trevor Meachum
Jamie Clover Adams, Director
Department of Agriculture & Rural Development

Civil Rights Commission

Arthur Horwitz, Co-Chair
Rasha Demashkieh, Co-Chair
Mumtaz Haque
Deloris Hunt
Laura Reyes-Kopack
Ricardo Resio
Linda Lee Tarver
Bradley Voss
Agustin V. Arbulu, Director
Department of Civil Rights

Civil Service Commission

James Barrett
Jase Bolger
Janet McClelland
Robert W. Swanson
Janine Winters, State Personnel Director

Heidi E. Washington, Director
Department of Corrections

C. Heidi Grether, Director

Department of Environmental Quality

Nick Lyon, Director

Department of Health and Human Services

Patrick M. McPharlin, Director

Department of Insurance and Financial Services

Shelly Edgerton, Director

Department of Licensing and Regulatory Affairs

Major General Gregory J. Vadnais, Director

Department of Military and Veterans Affairs

Natural Resources Commission

John Matonich, Chair
Christine Crumbaugh
Louise Klarr
Vicki J. Pontz
JR Richardson
Rex E. Schlaybaugh, Jr.
Chris Tracy
Keith Creagh, Director
Department of Natural Resources

Colonel Kriste Kibbey Etue, Director
Department of State Police

David B. Behen, Director

Department of Technology, Management and Budget

John S. Roberts, State Budget Director

Roger Curtis, Director

Department of Talent & Economic Development

Transportation Commission

Todd Wyett, Chair
Lynn Afendoulis, Vice Chair
Ron Boji
Michael D. Hayes
George Heartwell
Charles F. Moser
Kirk T. Steudle, Director
Department of Transportation

Nick A. Khouri, State Treasurer





FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT MANAGEMENT'S DISCUSSION AND ANALYSIS



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • www.audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report

The Honorable Rick Snyder, Governor
Members of the Legislature

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan principally as of and for the fiscal year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the following component units and funds were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included in these component units and funds, are based solely on the reports of the other auditors:

- State Lottery Fund (a major fund)
- Michigan Unemployment Compensation Funds (a major fund)
- Michigan Employment Security Act - Administration Fund
- Unemployment Obligation Trust Fund
- State Building Authority - Debt Service Fund
- State Building Authority - Capital Projects Fund
- Attorney Discipline System
- State Sponsored Group Insurance Fund
- Michigan Education Savings Program
- Michigan Finance Authority
- Michigan State Housing Development Authority
- Farm Produce Insurance Authority
- Mackinac Bridge Authority
- Mackinac Island State Park Commission
- Michigan Early Childhood Investment Corporation
- Michigan Education Trust
- State Bar of Michigan
- Venture Michigan Fund
- Western Michigan University
- 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

Those financial statements reflect total assets and total revenues or additions to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Total Revenues/Additions
Governmental activities	1.7%	2.6%
Business-type activities	98.5%	80.9%
Aggregate discretely presented component units	95.2%	91.0%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate remaining fund information	6.6%	11.5%



OAG

Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

The Honorable Rick Snyder, Governor
Members of the Legislature
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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 4 to the financial statements, the State of Michigan:

- Restated beginning net position for governmental activities in the government-wide statements to correct a misstatement related to the application of Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.
- Began allocating its net other postemployment benefit obligation liability to applicable proprietary funds.
- Began reporting its 401K and 457 plans separately to improve their comparability with the plans' separately issued financial statements.

As discussed in Note 8 to the financial statements, the State of Michigan adopted GASB Statement No. 72, *Fair Value Measurement and Application*.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information other than management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be



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Office of the Auditor General

Doug A. Ringler, CPA, CIA
Auditor General

The Honorable Rick Snyder, Governor
Members of the Legislature
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an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules - non-major funds and the introductory, statistical, and other information sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules - non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund statements and schedules - non-major funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical, and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

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

Sincerely,

Doug Ringler
Auditor General
January 31, 2017





MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide

- At September 30, 2016, the State's net position was \$17.1 billion. This means that total State assets and deferred outflows of resources exceeded total State liabilities and deferred inflows of resources by \$17.1 billion.
- The State's unrestricted net position was negative \$11.3 billion as of the close of the fiscal year. A positive balance in unrestricted net position represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets (e.g., capital assets) to unrestricted assets if all ongoing obligations were immediately due and payable.
- Revenues of \$57.8 billion supported expenses of \$56.2 billion during fiscal year 2016. As a result, the State's total net position increased by \$1.6 billion (10.2 percent). The increase in net position relates mostly to increased tax and operating grant revenue.

Fund Level

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$6.0 billion. Governmental fund balances increased \$168.2 million (2.9 percent) from the prior year, as restated.
- The State's two major governmental funds, the General Fund and the School Aid Fund, closed the fiscal year with a combined fund balance of \$2.9 billion, an increase of \$119.0 million (4.3 percent) from the prior year, as restated. Of the total General Fund balance of \$2.7 billion, \$604.4 million is unassigned and, therefore, available for appropriation in future years. The remaining \$2.1 billion is either non-spendable (e.g., consists of assets not easily converted to cash, such as inventories); restricted for specific purposes by enabling legislation; committed to specific programs or projects by legislative action; or assigned to fulfill contractual obligations. In the School Aid Fund, the entire fund balance of \$231.0 million is restricted for education purposes.
- The State's proprietary funds reported net position at year-end of \$3.4 billion. This represents an increase of \$543.2 million (18.8 percent) compared to the prior year-end balance, as restated, primarily the result of an increase in interest and investment revenue and a decrease in unemployment benefit payments.

Long-term Debt

- The State's total long-term bonded debt as of September 30, 2016 was \$6.2 billion, a decrease of \$428.9 million (6.4 percent) from the prior year. The decrease represents the net difference between new issuances, payments, and refundings of debt.

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 24.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Net Position (pages 32 and 33) presents all of the State's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases and decreases in net position measure whether the State's financial position is improving or declining.

The Statement of Activities (pages 34 and 35) presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 12 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 39 and 41) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g. land, buildings, and infrastructure)	No	Yes
Deferred inflows of unavailable resources	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Assets for certain debt issuance costs (i.e., prepaid insurance costs)	No	Yes
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e. claims and adjustments, compensated absences, and net pension liability)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned revenue	Yes	Yes
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financing sources, uses, and expenditures resulting from debt issuance	Yes	No

Michigan

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 61 of this report.

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

The fund financial statements begin on page 38 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 168 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- **Governmental funds** - Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- **Proprietary funds** - When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs-such as risk management and state sponsored group insurance activities. Internal service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary funds** - The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position beginning on page 50. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information (RSI)

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net position increased \$1.6 billion (10.2 percent) over the course of this fiscal year's operations. The net position of the governmental activities increased by \$1.1 billion (8.5 percent), and business-type activities had an increase of \$526.9 million (17.7 percent).

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other non-current assets	\$ 14,296.6	\$ 14,642.5	\$ 4,022.3	\$ 3,684.9	\$ 18,319.0	\$ 18,327.5
Capital assets	23,432.1	22,899.6	1.3	1.6	23,433.3	22,901.2
Total assets	<u>37,728.7</u>	<u>37,542.2</u>	<u>4,023.6</u>	<u>3,686.5</u>	<u>41,752.3</u>	<u>41,228.7</u>
Deferred outflows of resources	950.7	1,040.3	5.6	6.6	956.2	1,046.8
Liabilities:						
Current liabilities	6,592.2	6,142.6	245.8	432.1	6,838.0	6,574.7
Long-term liabilities	18,419.1	17,488.0	274.2	277.3	18,693.3	17,765.3
Total liabilities	<u>25,011.2</u>	<u>23,630.7</u>	<u>520.0</u>	<u>709.3</u>	<u>25,531.3</u>	<u>24,340.0</u>
Deferred inflows of resources	32.4	667.3	0.2	4.4	32.6	671.7
Net position:						
Net investment in capital assets	21,162.2	20,578.9	1.3	1.6	21,163.4	20,580.4
Restricted	3,772.4	3,647.7	3,526.8	2,989.6	7,299.2	6,637.3
Unrestricted	(11,298.8)	(9,942.0)	(19.1)	(11.9)	(11,317.9)	(9,953.9)
Total net position	<u>\$ 13,635.7</u>	<u>\$ 14,284.5</u>	<u>\$ 3,509.0</u>	<u>\$ 2,979.3</u>	<u>\$ 17,144.7</u>	<u>\$ 17,263.8</u>

Increases in liabilities were partly because of the recognition this year of a liability (\$393.4 million current and \$963.6 million long-term) for amounts due to the Michigan Finance Authority (a discretely presented component unit). More information can be found in Note 4 to the financial statements.

Michigan

The largest component of the State's net position, at \$21.2 billion, reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net position is the next largest component, comprising \$7.3 billion of the total. This represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation limiting how they can be used. The State's unrestricted net position was negative \$11.3 billion as of the close of the year. A positive balance in unrestricted net position represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

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

Change in Net Position
For Fiscal Year Ending September 30
(In Millions)

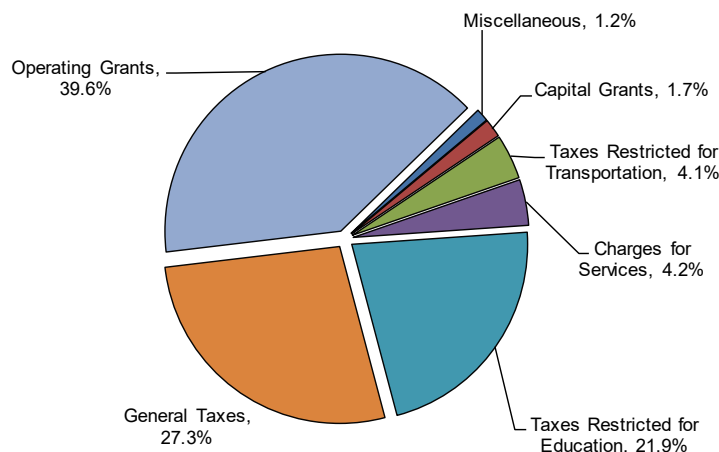
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for services	\$ 2,180.7	\$ 2,141.0	\$ 5,587.8	\$ 5,273.0	\$ 7,768.6	\$ 7,414.0
Operating grants	20,660.8	20,431.0	78.7	67.6	20,739.5	20,498.7
Capital grants	878.6	926.7	-	-	878.6	926.7
General revenues						
General taxes	14,202.5	14,040.4	-	-	14,202.5	14,040.4
Taxes restricted for educational purposes	11,430.2	11,155.1	-	-	11,430.2	11,155.1
Taxes restricted for transportation purposes	2,114.0	2,079.1	-	-	2,114.0	2,079.1
Unrestricted investment and interest earnings	4.4	1.2	0.4	0.1	4.8	1.3
Miscellaneous	621.8	500.9	-	-	621.8	500.9
Total revenues	52,093.1	51,275.3	5,666.9	5,340.8	57,760.0	56,616.1
Expenses						
General government	3,044.5	3,240.9	-	-	3,044.5	3,240.9
Education	15,831.5	15,452.3	-	-	15,831.5	15,452.3
Human Services	5,005.6	5,259.3	-	-	5,005.6	5,259.3
Public safety and corrections	2,664.7	2,685.5	-	-	2,664.7	2,685.5
Conservation, environment, etc.	753.4	609.3	-	-	753.4	609.3
Labor, commerce and regulatory	746.5	953.0	-	-	746.5	953.0
Health Services	18,435.8	17,931.5	-	-	18,435.8	17,931.5
Transportation	3,377.7	3,325.5	-	-	3,377.7	3,325.5
Tax credits	672.4	662.4	-	-	672.4	662.4
Intergovernmental revenue sharing	1,213.4	1,210.6	-	-	1,213.4	1,210.6
Interest on long-term debt	415.5	162.9	-	-	415.5	162.9
Liquor Purchase Revolving Fund	-	-	872.9	825.8	872.9	825.8
State Lottery Fund	-	-	2,230.0	1,990.6	2,230.0	1,990.6
Attorney Discipline System	-	-	5.0	4.7	5.0	4.7
Michigan Unemployment						
Compensation Funds	-	-	914.1	952.8	914.1	952.8
Total expenses	52,161.0	51,493.3	4,022.0	3,773.9	56,183.0	55,267.2
Excess (deficiency) Before Contributions and Transfers	(67.9)	(218.0)	1,644.9	1,566.9	1,577.0	1,349.0
Contribution to permanent fund principal	16.1	18.3	-	-	16.1	18.3
Transfers	1,118.0	999.8	(1,118.0)	(999.8)	-	-
Increase (decrease) in net position	1,066.2	800.1	526.9	567.1	1,593.1	1,367.2
Net position - beginning (restated)	12,569.6 *	13,484.4	2,982.0 *	2,412.1	15,551.6 *	15,896.6
Net position - ending	\$ 13,635.7	\$ 14,284.5	\$ 3,509.0	\$ 2,979.3	\$ 17,144.7	\$ 17,263.8

*More information regarding the restatement of beginning net position can be found in Note 4 to the financial statements.

Governmental Activities

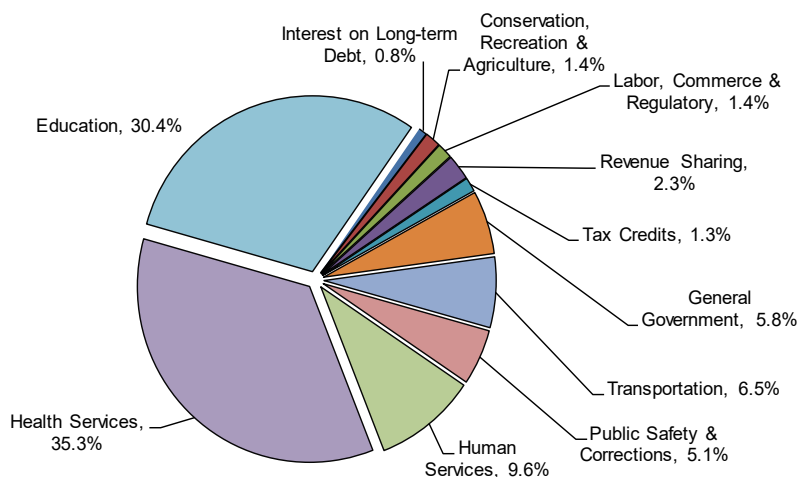
Revenues to fund governmental activities totaled \$52.1 billion for fiscal year 2016. As shown in the accompanying chart, 39.6 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 26.0 percent for educational and transportation purposes. Only 27.3 percent of the revenues were available for general use.

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2016**
(\$52.1 billion)



Expenses related to governmental activities totaled \$52.2 billion during fiscal year 2016. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health services represent the governmental activities' largest spending categories, accounting for 65.7 percent of the spending.

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2016**
(\$52.2 billion)



Business-type Activities

The business-type activities' net position increased \$526.9 million (17.7 percent) during the fiscal year. Factors contributing to these results included:

- The Michigan Unemployment Compensation Funds (MUCF) finished the fiscal year with an increase in net position of \$521.8 million (17.4 percent). The increase in the net position of these funds is primarily related to a decrease in unemployment benefit payments and an increase in interest revenue.
- The State Lottery Fund's net position increased \$6.0 million (224.2 percent) from the fiscal year 2015 amount, as restated. This primarily represents the increase in the net position restricted for unrealized gains or losses on investments due to changes in market value.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$6.0 billion. Of this amount, \$604.4 million constitutes unassigned fund balance in the General Fund, which is available to appropriate in future years. Of the total governmental fund balances, \$1.1 billion is in nonspendable form made up of amounts legally or contractually required to be maintained intact, including permanent fund endowments and assets that will not be converted to cash in the short-term, including consumable inventories. Another \$2.5 billion of the governmental fund balances are restricted for specific purposes by enabling legislation, the majority of which is legally restricted for capital projects. Committed governmental fund balances totaled \$1.7 billion as of the end of the fiscal year representing funding set aside for multi-year projects and earmarked revenue carried forward with legislative authority for specific ongoing programs. Another \$151.6 million of the governmental fund balances are assigned for encumbered services and goods to be received after the end of the fiscal year. Two capital projects funds reported negative unassigned fund balances totaling \$62.0 million due to expenditures incurred in advance of bonding proceeds which will be received after the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2016, the General Fund total fund balance was \$2.7 billion, of which \$604.4 million was unassigned and, therefore, available for appropriation. The General Fund total fund balance of \$2.7 billion represents an increase of \$163.1 million (6.5 percent) from the fiscal year 2015 ending total fund balance, as restated. Included within the General Fund's committed fund balance is \$612.4 million in the Counter-Cyclical Budget and Economic Stabilization Fund. This fund, also referred to as the Rainy Day Fund, is used to stabilize government programs in times of economic downturn.

General Fund Budgetary Highlights:

The original enacted fiscal year 2016 general fund budget was \$35.3 billion. During the year, various positive and negative supplemental appropriations were enacted, resulting in a final enacted budget of \$34.8 billion. The difference between the final enacted budget of \$34.8 billion and actual spending and encumbrances of \$34.6 billion resulted from spending authority net lapses of \$212.7 million and restricted revenue authorized, but not spent, totaling \$56.0 million. At fiscal year-end, excess restricted revenue of \$1.4 billion was carried forward into fiscal year 2017 and is available for appropriation.

All agencies finished the year with net lapses. However, the Department of Health and Human Services reported line item overexpenditures of \$1.0 million.

School Aid Fund

Fund balance at September 30, 2016, totaled \$231.0 million, a decrease of \$44.1 million from the prior year. Revenues and transfers to the fund totaled \$14.0 billion, up \$376.4 million from the prior year. In fiscal year 2016, tax revenues deposited in the fund increased \$269.4 million. Federal funds collected by the School Aid Fund were down \$21.2 million over the prior year. Expenditures and transfers to other funds totaled \$14.0 billion, an increase of \$173.3 million over the previous year. The School Aid Stabilization Fund ended the year with \$168.2 million in restricted fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2016, the State had invested \$23.4 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$291.8 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 3,551.6	\$ 3,515.4	\$ -	\$ -	\$ 3,551.6	\$ 3,515.4
Land improvements and other assets	186.3	166.8	-	-	186.3	166.8
Land rights	68.2	67.3	-	-	68.2	67.3
Buildings and improvements	1,768.3	1,791.4	-	-	1,768.3	1,791.4
Equipment	308.7	170.9	1.2	1.5	310.0	172.4
Computer software	684.5	538.5	-	0.1	684.5	538.6
Infrastructure	14,619.4	14,489.0	-	-	14,619.4	14,489.0
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	21,206.8	20,759.1	1.3	1.6	21,208.1	20,760.7
Construction in progress	2,225.3	2,140.6	-	-	2,225.3	2,140.6
Total	<u>\$ 23,432.1</u>	<u>\$ 22,899.6</u>	<u>\$ 1.3</u>	<u>\$ 1.6</u>	<u>\$ 23,433.3</u>	<u>\$ 22,901.2</u>

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

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State’s network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,452 lane miles of roads and 4,838 bridges (spans in excess of 20 feet).

The State has maintained the assessed condition of roads over the past five years. The State’s goal is to have more than 70 percent of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2015, indicated that 74.6 percent of roads were considered fair or better.

The State’s bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2016) indicated that the condition of the bridges improved from the prior year. For fiscal year 2016, 94.5 percent of the bridges were assessed as structurally fair or better.

The Legislature passed capital outlay appropriations of \$212.7 million for fiscal year 2016. More detailed information about the State’s capital assets is presented in Note 9 to the financial statements.

Michigan

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

Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General obligation bonds (backed by the State)	\$ 1,624.5	\$ 1,734.2	\$ -	\$ -	\$ 1,624.5	\$ 1,734.2
Revenue bonds and notes (backed by specific tax and fee revenue)	4,616.9	4,936.1	-	-	4,616.9	4,936.1
Total	<u>\$ 6,241.4</u>	<u>\$ 6,670.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,241.4</u>	<u>\$ 6,670.3</u>

During the year, the State and SBA issued bonds and bond anticipation notes totaling \$172.2 million. The State and SBA issued refunding bonds totaling \$1.4 billion. From the refunding bond proceeds, the State and SBA paid \$1.7 billion to bond escrow agents to cover future debt service payments. The proceeds from the new bonds will provide funding for Department of Transportation construction projects and state-owned and university-owned buildings.

Bond Ratings

The State's general obligations are rated AA stable outlook by Fitch, AA- stable outlook by Standard & Poor's, and Aa1 stable outlook by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15 percent of undedicated revenues received in the preceding year. In fiscal year 2016, the State did not issue any general obligation short-term notes.

ECONOMIC CONDITIONS

The U.S. economy has grown in each of the past seven years as measured by real gross domestic product (GDP); however, the rate of growth has not been as strong as it was prior to the Great Recession. In 2016, real GDP grew 1.6 percent - marking the seventh straight annual increase in real GDP. However, the 1.6 percent growth rate tied 2011 for the slowest annual growth rate over the seven most recent years. According to preliminary data, U.S. employment increased 1.7 percent in 2016, slower than the 2.1 percent rate of growth experienced in 2015. U.S. employment has increased 14.0 million jobs over the last six years to a new all-time high level.

The light vehicle sector, which remains a key component of the Michigan economy, has recovered markedly. After falling to a 27-year low of 10.4 million units in 2009, light vehicle sales rose to a then record high 17.4 million units in 2015. In 2016, light vehicle sales rose to a new record high of 17.5 million units. The U.S. housing market has improved after collapsing during the Great Recession, but still remains at historically low levels. In 2014, housing starts rose above 1.0 million for the first time in seven years. Starts rose 10.8 percent in 2015 and increased 4.9 percent in 2016. Despite these increases, 2016 housing starts remain 32.5 percent below average annual starts in the ten years directly before the Great Recession.

In 2015, Michigan payroll employment increased by 61,700 jobs or 1.5 percent and, in 2016, preliminary data indicate that Michigan employment rose another 90,000 jobs or 2.1 percent. Over the past six years, State employment has risen by 470,000 jobs or 12.2 percent. While employment in Michigan has been increasing, it still remains below the pre-recession peak level by 7.3 percent. In 2016, Michigan's unemployment rate averaged 4.8 percent, which is down 0.6 of a percentage point from the 5.4 percent average in 2015. Michigan's 4.8 percent average unemployment rate in 2016 was 0.1 of a percentage point less than the U.S. average unemployment rate of 4.9 percent. Comparing the first three quarters of 2016 to the first three quarters of 2015, Michigan personal income increased 3.8 percent while personal income grew 3.5 percent nationally. Through the first three quarters of 2016, wage and salary payments, the largest component of personal income, rose 5.4 percent, compared with 4.3 percent growth nationally. With overall prices, as measured by the Detroit Consumer Price Index, increasing 1.5 percent over the first three quarters of 2016, real (inflation adjusted) Michigan personal income increased 2.3 percent between the first three quarters of 2015 and the first three quarters of 2016.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional financial information can be obtained elsewhere on the Office of Financial Management website. You can also contact the office by phone at (517) 373-1010.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-1010.



FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

(In Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
ASSETS				
Current Assets:				
Cash	\$ 4,148	\$ 15,957	\$ 20,105	\$ 1,001,335
Cash on deposit with fiscal agent	-	3,142,980	3,142,980	-
Equity in common cash (Note 5)	3,452,427	244,716	3,697,143	1,512,823
Taxes, interest, and penalties receivable (Note 6)	4,696,018	-	4,696,018	-
Internal balances	35,425	(35,425)	-	-
Amounts due from component units	1,475	333	1,808	34,102
Amounts due from primary government	-	-	-	622,181
Amounts due from federal government	1,899,251	1,470	1,900,721	29,814
Amounts due from local units	248,111	29,046	277,157	929,078
Inventories	27,408	21,434	48,842	19,621
Investments (Note 8)	216,817	25,178	241,995	1,691,888
Other current assets	1,171,793	355,571	1,527,364	561,859
Total Current Assets	11,752,872	3,801,261	15,554,133	6,402,702
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	-	-	-	306,993
Investments	-	-	-	654,880
Mortgages and loans receivable	-	-	-	19,423
Taxes, interest, and penalties receivable (Note 6)	279,805	-	279,805	-
Advances to primary government	-	-	-	1,691,315
Amounts due from federal government	4,093	-	4,093	-
Amounts due from local units	914,881	-	914,881	6,364,111
Mortgages and loans receivable	-	-	-	2,964,384
Investments (Note 8)	1,265,691	191,748	1,457,439	4,207,179
Land and property held for resale	-	-	-	13,298
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,655,737	-	3,655,737	270,963
Buildings, equipment, and other depreciable assets	7,301,738	6,467	7,308,205	6,491,042
Less accumulated depreciation	(3,813,401)	(5,210)	(3,818,611)	(2,739,499)
Infrastructure	14,062,736	-	14,062,736	102,950
Construction in progress	2,225,270	-	2,225,270	235,079
Total capital assets	23,432,081	1,257	23,433,337	4,360,534
Interest in joint ventures (Note 7)	39,064	-	39,064	-
Other noncurrent assets	40,225	29,326	69,552	786,224
Total Noncurrent Assets	25,975,841	222,331	26,198,172	21,368,342
Total Assets	\$ 37,728,713	\$ 4,023,592	\$ 41,752,305	\$ 27,771,044
DEFERRED OUTFLOWS OF RESOURCES (Note 27)	\$ 950,666	\$ 5,562	\$ 956,227	\$ 337,293

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

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 121,059	\$ 1,828	\$ 122,887	\$ 467
Accounts payable and other liabilities	3,937,849	241,924	4,179,774	492,230
Income tax refunds payable (Note 16)	891,993	-	891,993	-
Amounts due to component units	489,467	-	489,467	32,764
Amounts due to primary government	-	-	-	4,718
Bonds and notes payable (Notes 13 and 14)	498,135	-	498,135	1,502,249
Interest payable	118,012	-	118,012	164,939
Unearned revenue	128,656	524	129,180	116,713
Current portion of other long-term obligations (Note 15)	406,997	1,529	408,526	268,325
Total Current Liabilities	6,592,168	245,806	6,837,973	2,582,406
Noncurrent Liabilities:				
Advances from component units	1,605,510	-	1,605,510	-
Prize awards payable (Note 15)	-	171,668	171,668	-
Unearned revenue	356,674	-	356,674	173,887
Bonds and notes payable (Notes 13 and 14)	6,360,815	-	6,360,815	14,092,784
Noncurrent portion of other long-term obligations (Note 15)	10,096,077	102,547	10,198,624	2,536,726
Total Noncurrent Liabilities	18,419,075	274,214	18,693,290	16,803,398
Total Liabilities	\$ 25,011,243	\$ 520,020	\$ 25,531,263	\$ 19,385,804
DEFERRED INFLOWS OF RESOURCES (Note 27)	\$ 32,392	\$ 181	\$ 32,573	\$ 36,042
NET POSITION				
Net investment in capital assets	\$ 21,162,152	\$ 1,257	\$ 21,163,409	\$ 2,480,700
Restricted For (Note 22):				
Education	721,849	-	721,849	148,968
Construction and debt service	-	-	-	4,320,741
Public safety and corrections	18,350	-	18,350	-
Conservation, environment, recreation, and agriculture	351,707	-	351,707	-
Health and human services	81,384	-	81,384	-
Transportation	1,027,377	-	1,027,377	-
Unemployment compensation	-	3,518,082	3,518,082	-
Labor, commerce, and regulatory	176,360	-	176,360	-
Other purposes	123,408	8,740	132,148	1,037,586
Funds Held as Permanent Investments:				
Expendable	253,942	-	253,942	199,734
Nonexpendable	1,018,036	-	1,018,036	453,897
Unrestricted	(11,298,822)	(19,126)	(11,317,949)	44,865
Total Net Position	\$ 13,635,744	\$ 3,508,953	\$ 17,144,696	\$ 8,686,491

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 3,044,493	\$ 658,741	\$ 147,493	\$ 7,558
Education	15,831,480	6,947	1,874,265	-
Human services	5,005,580	85,953	3,963,072	-
Public safety and corrections	2,664,726	169,789	144,492	15,197
Conservation, environment, recreation, and agriculture	753,361	296,694	219,558	2,355
Labor, commerce, and regulatory	746,550	788,169	399,689	-
Health services	18,435,832	69,323	13,474,892	-
Transportation	3,377,660	105,108	437,360	853,532
Tax credits (Note 16)	672,400	-	-	-
Intergovernmental-revenue sharing	1,213,432	-	-	-
Interest on long-term debt	415,468	-	-	-
Total governmental activities	<u>52,160,983</u>	<u>2,180,725</u>	<u>20,660,821</u>	<u>878,642</u>
Business-type Activities:				
Liquor Purchase Revolving Fund	872,902	1,082,256	-	-
State Lottery Fund	2,229,995	3,118,137	13,801	-
Attorney Discipline System	5,019	4,045	-	-
Michigan Unemployment Compensation Funds	<u>914,081</u>	<u>1,383,410</u>	<u>64,858</u>	<u>-</u>
Total business-type activities	<u>4,021,996</u>	<u>5,587,847</u>	<u>78,660</u>	<u>-</u>
Total primary government	<u>\$ 56,182,979</u>	<u>\$ 7,768,572</u>	<u>\$ 20,739,481</u>	<u>\$ 878,642</u>
Total component units	<u>\$ 5,125,563</u>	<u>\$ 2,860,406</u>	<u>\$ 1,257,949</u>	<u>\$ 118,002</u>

General Revenues:

Taxes:

General:

Sales and use
 Personal income
 Single business, Michigan business, and corporate income
 Tobacco products
 Beer, wine, and liquor
 Insurance company
 Quality assurance assessment
 Penalties and interest
 Other

Restricted For Educational Purposes:

Sales and use
 Personal income
 Education, property, and real estate transfers
 Tobacco products
 Beer, wine, and liquor
 Casino gaming wagering
 Other

Restricted For Transportation Purposes:

Sales and use
 Gasoline and diesel fuel
 Motor vehicle weight
 Other

Unrestricted investment and interest earnings
 Miscellaneous

Payments from State of Michigan

Contributions to permanent fund principal

Transfers

Total general and other revenue, payments, and transfers

Change in net position

Net position-beginning-restated

Net position-ending

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

NET (EXPENSE) REVENUES AND CHANGES IN NET POSITION			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (2,230,701)	\$ -	\$ (2,230,701)	\$ -
(13,950,269)	-	(13,950,269)	-
(956,556)	-	(956,556)	-
(2,335,247)	-	(2,335,247)	-
(234,754)	-	(234,754)	-
441,308	-	441,308	-
(4,891,616)	-	(4,891,616)	-
(1,981,660)	-	(1,981,660)	-
(672,400)	-	(672,400)	-
(1,213,432)	-	(1,213,432)	-
(415,468)	-	(415,468)	-
(28,440,795)	-	(28,440,795)	-
-	209,354	209,354	-
-	901,943	901,943	-
-	(974)	(974)	-
-	534,188	534,188	-
-	1,644,511	1,644,511	-
(28,440,795)	1,644,511	(26,796,285)	-
-	-	-	(889,206)
3,281,008	-	3,281,008	-
7,332,173	-	7,332,173	-
760,979	-	760,979	-
590,507	-	590,507	-
157,421	-	157,421	-
329,871	-	329,871	-
1,135,257	-	1,135,257	-
120,116	-	120,116	-
495,183	-	495,183	-
6,023,300	-	6,023,300	-
2,647,832	-	2,647,832	-
2,174,946	-	2,174,946	-
360,017	-	360,017	-
52,247	-	52,247	-
112,868	-	112,868	-
58,943	-	58,943	-
84,499	-	84,499	-
1,005,121	-	1,005,121	-
1,018,280	-	1,018,280	-
6,133	-	6,133	-
4,403	423	4,826	71,598
621,777	-	621,778	392,699
-	-	-	833,468
16,075	-	16,075	-
1,118,001	(1,118,001)	-	-
29,506,957	(1,117,577)	28,389,380	1,297,765
1,066,162	526,933	1,593,095	408,559
12,569,582	2,982,019	15,551,601	8,277,932
\$ 13,635,744	\$ 3,508,953	\$ 17,144,696	\$ 8,686,491



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

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

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools, intermediate school districts, higher education and school employee's retirement systems of the State. School aid payments to school districts are based on a statutory formula. Michigan Compiled Laws Section 388.1611a, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated 60 percent of the collections of sales tax imposed at a rate of 4 percent and all of the collections of sales tax imposed at the additional rate of 2 percent; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 160.

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS				
Current Assets:				
Cash	\$ 3,893	\$ 33	\$ 222	\$ 4,148
Equity in common cash (Note 5)	1,389,223	-	1,706,234	3,095,456
Taxes, interest, and penalties receivable (Note 6)	2,564,348	2,034,191	97,478	4,696,018
Amounts due from other funds (Note 18)	1,420,045	34,017	60,983	1,515,045
Amounts due from component units	206	-	1,230	1,436
Amounts due from federal agencies	1,555,641	62,858	280,751	1,899,251
Amounts due from local units	131,150	37,693	79,268	248,111
Inventories	5,177	-	12,659	17,836
Investments (Note 8)	-	-	216,817	216,817
Other current assets	854,649	19,099	262,973	1,136,721
Total Current Assets	7,924,333	2,187,890	2,718,615	12,830,838
Noncurrent Assets:				
Taxes, interest, and penalties receivable (Note 6)	213,010	64,167	2,628	279,805
Advances to other funds (Note 18)	1,926	-	-	1,926
Amounts due from federal agencies	4,093	-	-	4,093
Amounts due from local units	854,454	1,894	58,533	914,881
Investments (Note 8)	-	-	1,265,691	1,265,691
Other noncurrent assets	24,035	-	1,866	25,901
Total Noncurrent Assets	1,097,518	66,061	1,328,718	2,492,297
Total Assets	\$ 9,021,851	\$ 2,253,951	\$ 4,047,332	\$ 15,323,135
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 113,230	\$ 394	\$ 6,845	\$ 120,468
Accounts payable and other liabilities (Note 23)	3,038,054	149,575	552,721	3,740,350
Income tax refunds payable (Note 16)	891,993	-	-	891,993
Amounts due to other funds (Note 18)	73,538	1,387,525	98,955	1,560,019
Amounts due to component units	10,226	-	58,652	68,879
Bonds and notes payable	-	-	71,175	71,175
Interest payable	-	-	2	2
Unearned revenue	73,740	-	10,890	84,630
Total Current Liabilities	4,200,781	1,537,494	799,240	6,537,515
Long-Term Liabilities:				
Advances from component units	641,885	-	-	641,885
Unearned revenue	7,547	-	62	7,609
Total Long-Term Liabilities	649,432	-	62	649,494
Total Liabilities	4,850,213	1,537,494	799,302	7,187,009
DEFERRED INFLOWS OF RESOURCES (Note 27)	1,493,084	485,445	172,476	2,151,006
FUND BALANCES				
Nonspendable	76,746	-	1,030,282	1,107,029
Restricted	467,486	231,012	1,817,750	2,516,248
Committed	1,378,378	-	289,534	1,667,911
Assigned	151,555	-	-	151,555
Unassigned (Note 21)	604,388	-	(62,012)	542,377
Total Fund Balances (Note 22)	2,678,554	231,012	3,075,555	5,985,120
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,021,851	\$ 2,253,951	\$ 4,047,332	\$ 15,323,135

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2016

(In Thousands)

Total fund balances for governmental funds	\$ 5,985,120
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,646,568	
Buildings, equipment, and other depreciable assets	5,886,278	
Infrastructure	14,062,736	
Construction in progress	2,225,270	
Interest in joint ventures	39,064	
Accumulated depreciation	<u>(3,051,573)</u>	22,808,343

Certain tax revenues are earned but not available and therefore are reported as deferred inflows of resources in the funds.	1,822,914
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Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds.	328,078
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Amounts due to component units for long-term loans.	(1,384,188)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	(70,578)
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Pension related assets are not available in the current period and therefore are not reported in the funds.	13,280
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Deferred outflows of resources not reported in the funds:	
Refunding of debt	63,051
Pension related	846,479

Debt issuance costs are reported as current expenditures in the funds. However, certain debt issuance costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.	295
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 15)

Capital lease obligations	(397,554)	
Compensated absences	(385,662)	
Workers' compensation	(61,888)	
Litigation	(307,604)	
Net pension liability	(5,901,758)	
Net other postemployment benefits	(2,629,417)	
Pollution remediation	<u>(158,109)</u>	(9,841,992)

Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, unamortized discounts, and accrued interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Position. This is the net effect of these balances on the statement. (Note 13)

Bonds and notes payable	(6,241,413)	
Unamortized premiums	(550,733)	
Unamortized discounts	4,371	
Accrued interest payable	<u>(115,860)</u>	(6,903,635)

Deferred inflows of resources not reported in the funds:	
Refunding of debt	(10,018)
Pension related	<u>(21,404)</u>

Net position of governmental activities	<u>\$ 13,635,744</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES				
Taxes	\$ 14,247,509	\$ 11,436,917	\$ 2,120,090	\$ 27,804,517
From federal agencies	18,237,788	1,585,222	1,375,331	21,198,341
From local agencies	93,888	-	20,566	114,454
From services	331,835	-	8,042	339,877
From licenses and permits	342,906	-	227,244	570,150
Special Medicaid reimbursements	115,621	-	-	115,621
Miscellaneous	966,877	33,628	1,037,632	2,038,138
Total Revenues	34,336,425	13,055,768	4,788,906	52,181,098
EXPENDITURES				
Current:				
General government	2,633,636	29,028	268,958	2,931,623
Education	1,721,372	14,005,217	105,390	15,831,979
Human services	5,001,269	-	31,900	5,033,169
Public safety and corrections	2,667,773	-	2,865	2,670,637
Conservation, environment, recreation, and agriculture	491,230	-	262,495	753,725
Labor, commerce, and regulatory	558,265	-	672,563	1,230,828
Health services	18,419,053	-	64,650	18,483,704
Transportation	268,188	-	2,381,881	2,650,069
Tax credits (Note 16)	672,400	-	-	672,400
Capital outlay	201,693	-	904,470	1,106,163
Intergovernmental-revenue sharing	1,213,432	-	-	1,213,432
Debt service:				
Bond principal retirement	-	-	452,695	452,695
Bond interest and fiscal charges	-	-	276,369	276,369
Capital lease payments	67,690	-	1,292	68,982
Total Expenditures	33,916,001	14,034,245	5,425,529	53,375,775
Excess of Revenues over (under) Expenditures	420,423	(978,477)	(636,623)	(1,194,677)
OTHER FINANCING SOURCES (USES)				
Bonds and bond anticipation notes issued	81,786	-	90,409	172,195
Refunding bonds issued	78	-	1,425,317	1,425,395
Premium on bond issuance	18,352	-	275,826	294,178
Discount on bond issuance	-	-	(2,773)	(2,773)
Payment to refunded bond escrow agent	-	-	(1,674,399)	(1,674,399)
Capital lease acquisitions	16,008	-	3,313	19,322
Proceeds from sale of capital assets	2,543	-	569	3,111
Transfers from other funds (Note 20)	269,447	944,007	1,971,516	3,184,970
Transfers to other funds (Note 20)	(645,526)	(9,610)	(1,404,003)	(2,059,139)
Total Other Financing Sources (Uses)	(257,313)	934,396	685,777	1,362,860
Net changes in fund balances	163,110	(44,081)	49,154	168,184
Fund Balances - Beginning of fiscal year - restated	2,515,443	275,093	3,026,401	5,816,936
Fund Balances - End of fiscal year	\$ 2,678,554	\$ 231,012	\$ 3,075,555	\$ 5,985,120

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

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

Net change in fund balance - total governmental funds	\$ 168,184
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
(Note 9)

Land and other non-depreciable assets	37,089	
Buildings, equipment, and other depreciable assets	244,006	
Infrastructure	145,238	
Construction in progress	46,819	
Gain on disposal of capital assets	4,035	
Accumulated depreciation	<u>(215,738)</u>	261,450

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities.	(176,919)
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Amount due to component units for long-term loans are not reported in the funds as they are not due and payable.	548,461
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Increase in equity interest in joint ventures. (Note 7)	(569)
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Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities.	(54,013)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	16,251
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Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Position. This is the amount proceeds exceed repayments. (Note 13)

Bond proceeds and premiums received	(1,891,768)	
Repayment of bond principal	452,695	
Payment to refunded bond escrow agent	1,674,399	
Discount on bond issuances	2,773	
Accrued interest and amortization	<u>(67,397)</u>	170,702

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. Some expenditures reported in the funds either increase or decrease long-term obligations reported in the Statement of Net Position.

In the current year, these amounts related to:

Net other postemployment benefit obligation	(42,252)	
Pension costs, net	116,495	
Capital lease payments	26,650	
Compensated absences payments	6,601	
Litigation recoveries, settlements and payments	14,720	
Pollution remediation obligations	203	
Workers' compensation	7,477	
Pension supplement	4,179	
Other	<u>(1,458)</u>	132,614

Change in net position of governmental activities	<u><u>\$ 1,066,162</u></u>
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The accompanying notes are an integral part of the financial statements.



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws (MCL) Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Technology, Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1991. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net position balance represents the unrealized cumulative gain or loss on investments, the change in net other postemployment benefits obligation, capital assets (leasehold improvements and equipment), and the change in net pension liability and deferred inflows and outflows related to pensions. These are required by Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, GASB Statement No 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.

In general, revenues and related expenses are recognized in the period during which the related drawings are held. Because draw games may be played on an advance wager basis, an associated liability is recognized for all wagers received for drawings to be conducted after the end of the reporting period. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Unemployment Insurance Agency: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund. Executive Order 2014-12, established the Department of Talent and Economic Development (TED) and transferred the Unemployment Insurance Agency from the Department of Licensing and Regulatory Affairs to TED.

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

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

Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 220.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 224.

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2016

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	ACTIVITIES -- INTERNAL SERVICE FUNDS
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 15,076	\$ 879	\$ 15,957	\$ -
Cash on deposit with fiscal agent	-	3,142,980	-	3,142,980	-
Equity in common cash (Note 5)	4,319	159,917	80,479	244,716	356,971
Amounts due from other funds (Note 18)	-	2,490	-	2,490	8,648
Amounts due from component units	-	333	-	333	39
Amounts due from federal agencies	-	1,470	-	1,470	-
Amounts due from local units	-	29,046	-	29,046	-
Inventories	15,740	-	5,694	21,434	9,572
Investments (Note 8)	21,678	-	3,500	25,178	-
Other current assets	116,760	224,604	14,207	355,571	33,503
Total Current Assets	158,498	3,575,918	104,759	3,839,176	408,732
Noncurrent Assets:					
Investments (Note 8)	191,748	-	-	191,748	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	5,896	-	571	6,467	1,415,461
Allowance for depreciation	(4,672)	-	(538)	(5,210)	(761,828)
Total capital assets	1,224	-	33	1,257	662,802
Other noncurrent assets	-	29,200	126	29,326	750
Total Noncurrent Assets	192,972	29,200	160	222,331	663,552
Total Assets	\$ 351,470	\$ 3,605,118	\$ 104,919	\$ 4,061,507	\$ 1,072,284
DEFERRED OUTFLOWS OF RESOURCES	\$ 3,340	\$ -	\$ 2,222	\$ 5,562	\$ 41,136
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 660	\$ -	\$ 1,168	\$ 1,828	\$ 591
Accounts payable and other liabilities (Note 23)	106,006	36,697	98,681	241,385	118,112
Amounts due to other funds (Note 18)	34,350	3,898	206	38,455	6,067
Amounts due to component units	-	-	-	-	25
Interest payable	-	-	-	-	2,150
Unearned revenue	-	-	524	524	44,026
Current portion of other long-term obligations (Note 15)	890	-	639	1,529	70,254
Total Current Liabilities	141,907	40,595	101,218	283,721	241,225
Long-Term Liabilities:					
Advances from other funds (Note 18)	-	-	-	-	1,926
Prize awards payable	171,668	-	-	171,668	-
Unearned revenue	-	-	-	-	349,064
Noncurrent portion of other long-term obligations (Note 15)	32,494	46,440	23,612	102,547	590,828
Total Long-Term Liabilities	204,162	46,440	23,612	274,214	941,818
Total Liabilities	\$ 346,069	\$ 87,036	\$ 124,831	\$ 557,935	\$ 1,183,043
DEFERRED INFLOWS OF RESOURCES	\$ 1	\$ -	\$ 180	\$ 181	\$ 956
NET POSITION					
Net investment in capital assets	\$ 1,224	\$ -	\$ 33	\$ 1,257	\$ 536,436
Restricted For:					
Unemployment compensation	-	3,518,082	-	3,518,082	-
Other purposes	8,740	-	-	8,740	7,755
Unrestricted	(1,224)	-	(17,903)	(19,126)	(614,770)
Total Net Position	\$ 8,740	\$ 3,518,082	\$ (17,870)	\$ 3,508,953	\$ (70,578)

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
OPERATING REVENUES					
Operating revenues	\$ 3,118,137	\$ 1,383,410	\$ 1,086,301	\$ 5,587,847	\$ 1,651,480
Total Operating Revenues	3,118,137	1,383,410	1,086,301	5,587,847	1,651,480
OPERATING EXPENSES					
Salaries, wages, and other administrative	365,754	11	86,608	452,374	725,471
Interest expense	1	-	-	1	-
Depreciation	411	-	12	423	75,622
Purchases for resale	-	-	790,348	790,348	60,495
Purchases for prison industries	-	-	-	-	6,244
Lottery prize awards	1,856,342	-	-	1,856,342	-
Premiums and claims	-	-	4	4	705,946
Unemployment benefits	-	908,394	-	908,394	-
Other operating expenses	-	5,675	818	6,493	55,812
Total Operating Expenses	2,222,509	914,081	877,790	4,014,380	1,629,591
Operating Income (Loss)	895,628	469,329	208,510	1,573,467	21,890
NONOPERATING REVENUES (EXPENSES)					
Interest revenue	283	64,787	423	65,493	946
Investment revenue (expense) - net	13,518	-	-	13,518	-
Other nonoperating revenues	-	71	-	72	1,390
Amortization of prize award obligation discount	(7,481)	-	-	(7,481)	-
Interest expense	-	-	-	-	(368)
Other nonoperating expense	(4)	-	(131)	(135)	(6)
Total Nonoperating Revenues (Expenses)	6,316	64,858	292	71,467	1,961
Income (Loss) Before Transfers	901,943	534,188	208,803	1,644,934	23,851
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Transfers To:					
School Aid Fund	(888,907)	-	-	(888,907)	-
Other funds	(6,992)	(12,345)	(209,756)	(229,094)	(7,600)
Total transfers to other funds	(895,899)	(12,345)	(209,756)	(1,118,001)	(7,600)
Change in net position	6,044	521,842	(953)	526,933	16,251
Total net position - Beginning of fiscal year - restated	2,696	2,996,240	(16,916)	2,982,019	(86,829)
Total net position - End of fiscal year	\$ 8,740	\$ 3,518,082	\$ (17,870)	\$ 3,508,953	\$ (70,578)

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

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR			TOTALS	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 3,789	\$ -	\$ 3,789	\$ -
Receipts from customers	3,299,504	1,353,264	1,082,256	5,735,025	1,747,477
Membership dues	-	-	3,958	3,958	-
Payments to employees	(22,794)	-	(24,310)	(47,103)	(250,437)
Payments to suppliers	(58,430)	-	(841,351)	(899,781)	(1,126,131)
Payments to prize winners	(2,066,650)	-	-	(2,066,650)	-
Payments for commissions to retailers	(286,026)	-	-	(286,026)	-
Claims paid	-	(914,228)	-	(914,228)	(294,352)
Other receipts	-	30,546	105	30,652	108
Other payments	-	(11)	(7,259)	(7,271)	(2,914)
Net cash provided (used)					
by operating activities	\$ 865,605	\$ 473,360	\$ 213,399	\$ 1,552,364	\$ 73,752
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from federal government	\$ -	\$ 71	\$ -	\$ 71	\$ -
Loans or loan repayments from other funds	-	-	-	-	6,167
Loans or loan repayments to other funds	-	-	-	-	(6,479)
Transfers to other funds	(882,000)	(12,214)	(209,756)	(1,103,970)	(7,600)
Net cash provided (used)					
by noncapital financing activities	\$ (882,000)	\$ (12,143)	\$ (209,756)	\$ (1,103,899)	\$ (7,913)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (110)	\$ -	\$ (13)	\$ (123)	\$ (28,521)
Interest paid	-	-	-	-	(16)
Capital lease payments	-	-	-	-	(24,448)
(including imputed interest expense)	-	-	-	-	31
Proceeds from sale of capital assets	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	\$ (110)	\$ -	\$ (13)	\$ (123)	\$ (52,953)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investment securities	\$ 23,207	\$ -	\$ -	\$ 23,207	\$ -
Purchase of investment securities	(6,059)	-	-	(6,059)	-
Sale of investment securities	-	-	1,510	1,510	-
Interest and dividends on investments	283	64,787	423	65,493	946
Expenses from securities lending activities	(4)	-	-	(4)	-
Net cash provided (used)					
by investing activities	\$ 17,427	\$ 64,787	\$ 1,933	\$ 84,147	\$ 946
Net cash provided (used) - all activities	\$ 922	\$ 526,004	\$ 5,563	\$ 532,489	\$ 13,831
Cash and cash equivalents at beginning of year - restated	2,739	2,791,970	74,627	2,869,336	342,549
Cash and cash equivalents at end of year	\$ 3,661	\$ 3,317,974	\$ 80,190	\$ 3,401,825	\$ 356,380

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

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					
	MAJOR					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS		
RECONCILIATION OF CASH AND CASH EQUIVALENTS						
Per Statement of Net Position Classifications:						
Cash	\$ 2	\$ 15,076	\$ 879	\$ 15,957	\$ -	
Cash on deposit with fiscal agent	-	3,142,980	-	3,142,980	-	
Equity in common cash	4,319	159,917	80,479	244,716	356,971	
Warrants outstanding	(660)	-	(1,168)	(1,828)	(591)	
Cash and cash equivalents at end of year	<u>\$ 3,661</u>	<u>\$ 3,317,974</u>	<u>\$ 80,190</u>	<u>\$ 3,401,825</u>	<u>\$ 356,380</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 895,628	\$ 469,329	\$ 208,510	\$ 1,573,467	\$ 21,890	
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation expense	411	-	12	423	75,622	
Pension expense	2,591	-	1,409	4,000	33,587	
Deferred Outflows - contributions subsequent to measurement date	(2,999)	-	(2,018)	(5,017)	(34,928)	
Amortization of prize award obligation discount	(7,481)	-	-	(7,481)	-	
Other nonoperating expense	-	-	(131)	(131)	-	
Other reconciling items	291	-	(905)	(614)	840	
Net Changes in Assets and Liabilities:						
Inventories	(4,513)	-	(878)	(5,391)	37	
Other assets (net)	181,368	19,865	(5,109)	196,124	(14,619)	
Accounts payable and other liabilities	3,136	(15,834)	12,501	(197)	23,177	
Prize awards payable	(202,826)	-	-	(202,826)	-	
Unearned revenue	-	-	7	7	98,691	
Net cash provided (used) by operating activities	<u>\$ 865,605</u>	<u>\$ 473,360</u>	<u>\$ 213,399</u>	<u>\$ 1,552,364</u>	<u>\$ 204,297</u>	
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES						
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 130,545	
Capital lease liabilities entered into during the year	-	-	-	-	(130,545)	
Increase (decrease) in fair value of investments	5,778	-	-	5,778	-	
Transfers to other funds (accrual)	(34,017)	(790)	-	(34,807)	-	
Gain (loss) on disposal of capital assets	-	-	-	-	(4)	
Total noncash investing, capital, and financing activities	<u>\$ (28,239)</u>	<u>\$ (790)</u>	<u>\$ -</u>	<u>\$ (29,029)</u>	<u>\$ (4)</u>	



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 232.
Private Purpose Trust Funds, page 240.
Agency Funds, page 243.

STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**

SEPTEMBER 30, 2016

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash	\$ -	\$ 1,463	\$ 40,192
Equity in common cash (Note 5)	251,976	140,061	18,553
Receivables:			
From participants	163,647	-	-
From employers	404,372	-	-
Other	156,425	-	-
Interest and dividends	8,006	3,363	-
Due from other funds (Note 18)	96	-	-
Due from component unit	717	-	-
Due from other governmental	42,920	-	-
Sale of investments	607	-	-
Investments at Fair Value (Note 8):			
Short-term investments	2,523,581	-	-
Fixed income	8,111,698	16,898	-
Domestic equities	16,149,322	-	-
Real estate	6,563,820	-	-
Alternative investments	16,267	-	-
Private equity pools	9,456,581	-	-
International equities	9,803,880	-	-
Absolute return	9,374,945	-	-
Mutual funds	1,013,134	4,286,238	-
Pooled investment funds	3,610,082	-	-
Separate accounts	2,322,953	-	-
Guaranteed funding agreements	-	644,630	-
Securities lending collateral (Note 8)	4,325,120	-	-
Other current assets	-	16,805	2
Other noncurrent assets	-	500	370,141
Total assets	\$ 74,300,150	\$ 5,109,959	\$ 428,889
LIABILITIES			
Warrants outstanding	\$ 738	\$ 6,315	\$ 1,040
Accounts payable and other liabilities	262,391	14,330	56,139
Amounts due to other funds (Note 18)	16	-	1,570
Obligations under security lending	4,319,172	-	-
Unearned revenue	2,750	-	-
Other long-term liabilities	-	-	370,141
Total liabilities	\$ 4,585,068	\$ 20,645	\$ 428,889
NET POSITION			
Restricted for pension, postemployment health-care, deferred compensation participants, and other purposes	\$ 69,715,082	\$ 5,089,314	

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

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
From participants	\$ 1,145,043	\$ 516,954
From employers	4,862,490	-
From clients	-	44,321
From gifts, bequests, and endowments	-	29,537
From other governmental	73,892	-
From other systems	14,328	-
Investment Income:		
Net increase (decrease) in the fair value of investments	3,757,274	297,422
Interest, dividends, and other	1,378,867	101,617
Securities lending income	109,655	-
Less Investment Expense:		
Investment activity expense	204,340	-
Securities lending expense	16,448	-
Net investment income (loss)	5,025,009	399,038
Escheated property	-	76,753
Miscellaneous income	4,788	1,808
Total Additions	11,125,551	1,068,411
DEDUCTIONS		
Benefits paid to participants or beneficiaries	6,306,775	356,720
Medical, dental, and life insurance for retirants	1,190,533	-
Refunds and transfers to other systems	270,701	-
Amounts distributed to clients, claimants, or third parties	-	167,257
Administrative and other expenses	240,627	12,729
Transfers to other funds	230	-
Total Deductions	8,008,866	536,706
Change in net position	3,116,685	531,705
Net position - Beginning of fiscal year	66,598,397	4,557,609
Net position - End of fiscal year	\$ 69,715,082	\$ 5,089,314

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



COMPONENT UNIT FINANCIAL STATEMENTS



Major Funds

MICHIGAN FINANCE AUTHORITY

Executive Order 2010-2 created the Michigan Finance Authority (MFA) to consolidate 10 different public finance authorities. In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the Land Bank Fast Track Authority was transferred to MFA. A seven-member Board of Directors, consisting of the State Treasurer and six appointees of the Governor with advice and consent of the State Senate, governs the Authority.

MFA provides sources of funding for loans to governmental units, school districts, nonpublic nonprofit institutions of higher education, and healthcare corporations and facilities. MFA assists governmental units in financing and marketing municipal debt and tax-exempt bonds. The Authority also enhances Michigan's student loan efforts by overseeing the collection of federal and state issued loans as well as through the administration of the Michigan Guaranty Agency. MFA may not create debt or liabilities on behalf of the State or pledge the full faith and credit of the State.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Michigan Compiled Laws Section 125.1421 created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

MICHIGAN STRATEGIC FUND

The Michigan Strategic Fund (MSF) is a public body corporation and politic created by Michigan Compiled Laws Section 125.2005 to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. Executive Order 2014-12, issued on December 15, 2014, transferred the Workforce Development Agency from MSF to the Michigan Talent Investment Agency.

MSF is governed by a board of 11 members, which includes the directors (or their designees) of the Departments of Licensing and Regulatory Affairs and Treasury, and the Chief Executive Officer of the Michigan Economic Development Corporation. The Governor, with the advice and consent of the Senate, appoints the other eight members; none of those eight may be an employee of the State.

WESTERN MICHIGAN UNIVERSITY

Of the 10 universities included in this report, Western Michigan University is reported as a major component unit. The universities are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University, and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

Non-Major Funds

The non-major component unit - authorities are presented beginning on page 248.

The non-major component unit - State universities are presented beginning on page 254.

STATEMENT OF NET POSITION

COMPONENT UNITS

SEPTEMBER 30, 2016

(In Thousands)

	AUTHORITIES			
	MICHIGAN FINANCE AUTHORITY	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN STRATEGIC FUND	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 125,609	\$ 206,466	\$ 129,176	\$ 153,799
Equity in common cash (Note 5)	1,207,828	-	268,806	36,188
Amounts due from component units	-	-	-	34,097
Amounts due from primary government	394,915	-	-	4,238
Amounts due from federal government	1,252	-	7,880	2,571
Amounts due from local units	928,976	-	-	-
Inventories	-	-	-	649
Investments (Note 8)	1,426,346	145,972	-	16,815
Other current assets	268,804	50,647	60,561	20,319
Total Current Assets	4,353,730	403,084	466,424	268,678
Restricted Assets:				
Cash and cash equivalents	-	-	51,268	65,114
Investments	-	-	-	28,957
Mortgages and loans receivable	-	-	-	-
Advances to primary government	1,691,315	-	-	-
Amounts due from local units	6,364,111	-	-	-
Mortgages and loans receivable	622,229	2,235,307	52,282	10,400
Investments (Note 8)	892,386	822,793	-	1,240,604
Land and property held for resale	-	-	-	13,298
Capital Assets (Note 9):				
Land and other non-depreciable assets	-	-	-	943
Buildings, equipment, and other depreciable assets	-	-	-	56,307
Less accumulated depreciation	-	-	-	(35,890)
Infrastructure	-	-	-	102,950
Construction in progress	-	-	-	-
Total capital assets	-	-	-	124,310
Other noncurrent assets	-	72,366	573,991	46,275
Total Assets	\$ 13,923,771	\$ 3,533,549	\$ 1,143,964	\$ 1,797,636
DEFERRED OUTFLOWS OF RESOURCES (Note 27)	\$ 31,483	\$ 149,912	\$ 755	\$ 38,791

STATE UNIVERSITIES

WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 85,960	\$ 300,325	\$ 1,001,335
-	-	1,512,823
-	5	34,102
18,970	204,057	622,181
3,551	14,559	29,814
17	85	929,078
2,894	16,078	19,621
24,619	78,137	1,691,888
63,018	98,509	561,859
199,031	711,756	6,402,702
-	190,611	306,993
347,574	278,349	654,880
-	19,423	19,423
-	-	1,691,315
-	-	6,364,111
9,073	35,094	2,964,384
154,883	1,096,514	4,207,179
-	-	13,298
123,086	146,934	270,963
1,256,032	5,178,702	6,491,042
(528,410)	(2,175,200)	(2,739,499)
-	-	102,950
46,924	188,155	235,079
897,632	3,338,592	4,360,534
33,599	59,993	786,224
\$ 1,641,792	\$ 5,730,332	\$ 27,771,044
\$ 14,203	\$ 102,149	\$ 337,293

STATEMENT OF NET POSITION
COMPONENT UNITS (Continued)
 SEPTEMBER 30, 2016
 (In Thousands)

	AUTHORITIES			
	MICHIGAN FINANCE AUTHORITY	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN STRATEGIC FUND	NON-MAJOR
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ 155	\$ 312
Accounts payable and other liabilities	12,990	46,916	44,444	20,923
Amounts due to component units	-	-	28,575	4,189
Amounts due to primary government	-	-	112	1,625
Bonds and notes payable (Note 14)	1,343,106	70,060	15,595	55
Interest payable	130,933	11,103	6,040	4,307
Unearned revenue	-	-	9,257	2,520
Current portion of other long-term obligations	28,737	134,547	840	82,021
Total Current Liabilities	1,515,765	262,626	105,019	115,953
Unearned revenue	-	-	145,566	1,101
Bonds and notes payable (Note 14)	9,555,182	1,995,260	364,056	311,289
Noncurrent portion of other long-term obligations	10,803	580,121	30,670	953,028
Total Liabilities	\$ 11,081,750	\$ 2,838,006	\$ 645,311	\$ 1,381,371
DEFERRED INFLOWS OF RESOURCES (Note 27)	\$ 1,610	\$ 12,930	\$ 472	\$ 87
NET POSITION				
Net investment in capital assets	\$ -	\$ -	\$ -	\$ 122,680
Restricted For:				
Education	-	-	-	-
Construction and debt service	3,843,436	438,204	-	2,869
Other purposes	-	76,017	664,299	100,887
Funds Held as Permanent Investments:				
Expendable	-	-	-	63,790
Nonexpendable	-	-	-	-
Unrestricted	(971,543)	318,304	(165,363)	164,743
Total Net Position	\$ 2,871,893	\$ 832,524	\$ 498,936	\$ 454,969

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

STATE UNIVERSITIES

WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ -	\$ -	\$ 467
69,039	297,918	492,230
-	-	32,764
-	2,980	4,718
18,697	54,736	1,502,249
2,121	10,435	164,939
12,685	92,251	116,713
5,581	16,598	268,325
108,124	474,919	2,582,406
-	27,219	173,887
411,808	1,455,190	14,092,784
325,215	636,890	2,536,726
\$ 845,146	\$ 2,594,219	\$ 19,385,804
\$ 1,321	\$ 19,622	\$ 36,042
\$ 420,313	\$ 1,937,707	\$ 2,480,700
12,221	136,747	148,968
-	36,232	4,320,741
162,887	33,497	1,037,586
-	135,943	199,734
78,922	374,975	453,897
135,185	563,539	44,865
\$ 809,528	\$ 3,218,641	\$ 8,686,491

STATEMENT OF ACTIVITIES**COMPONENT UNITS**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Finance Authority	\$ 546,972	\$ 469,754	\$ 208,924	\$ -	\$ 131,706
Michigan State Housing Development Authority	865,217	186,963	710,221	-	31,967
Michigan Strategic Fund	358,826	1,620	32,104	-	(325,101)
Non-Major	200,427	134,231	107,774	100,675	142,253
State Universities:					
Western Michigan University	665,319	399,354	24,650	9,622	(231,693)
Non-Major	2,488,801	1,668,484	174,275	7,705	(638,337)
Total	<u>\$ 5,125,563</u>	<u>\$ 2,860,406</u>	<u>\$ 1,257,949</u>	<u>\$ 118,002</u>	<u>\$ (889,206)</u>

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

GENERAL REVENUES					
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR RESTATED	NET POSITION END OF YEAR
\$ -	\$ -	\$ -	\$ 131,706	\$ 2,740,187	\$ 2,871,893
38,183	-	-	70,149	762,375	832,524
13,673	250,287	77,678	16,537	482,399	498,936
28,876	5,000	16,754	192,883	262,086	454,969
2,010	104,334	112,869	(12,480)	822,008	809,528
(11,144)	473,848	185,398	9,764	3,208,877	3,218,641
<u>\$ 71,598</u>	<u>\$ 833,468</u>	<u>\$ 392,699</u>	<u>\$ 408,559</u>	<u>\$ 8,277,932</u>	<u>\$ 8,686,491</u>

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Michigan was admitted to the Union as the twenty-sixth state in 1837. The State of Michigan is governed under the Constitution of 1963, as amended. The legislative power is vested in a 38-member senate and a 110-member house of representatives; executive power is vested in a governor; and the judicial power is vested exclusively in one court of justice.

For financial reporting purposes, the State of Michigan's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, departments and agencies, bureaus, boards, commissions, and those authorities that are considered an integral part of the primary government. Component units are legally separate governmental organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial accountability is defined in GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61. The State is financially accountable for those entities in which the State appoints a voting majority of an organization's governing authority, and either is able to impose its will upon the entity or there exists a financial benefit or burden relationship with the State. For those entities in which the State does not appoint a voting majority of the governing authority, GASB standards require inclusion in the reporting entity if they are fiscally dependent on the State and there exists a financial benefit or burden relationship with the State.

GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, most of the university component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units

The State Building Authority (SBA) is a legally separate organization that has a board appointed by the primary government and provides services primarily to benefit the State. Therefore, SBA is reported as though it was part of the primary government, using the blending method.

Discretely Presented Component Units

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

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

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

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

The Farm Produce Insurance Authority provides reimbursements to participating producers for losses suffered in the event of a grain dealer's financial failure.

The Land Bank Fast Track Authority receives tax reverted properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

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

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

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

Michigan

Notes to the Financial Statements

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

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

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

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

The Venture Michigan Fund is a nonprofit corporation that raises capital and invests that capital in venture capital firms with the intent of benefiting Michigan's seed or early stage businesses in order to promote the economic health of the State of Michigan.

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

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

Ten of the State's public universities are considered component units because they have boards appointed by the primary government and there is a financial burden/benefit relationship with the State. Their balances and operating results are included with the other discretely presented component units on the government-wide financial statements. The 10 universities included in these statements are: Central Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, Saginaw Valley State University, and Western Michigan University. Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate. The State provides significant funding to support these institutions; however, under GASB criteria, they are considered fiscally independent, special-purpose governments.

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

Significant Transactions

The State's significant transactions with its major discretely presented component units result primarily from providing appropriations to the public universities, including \$104.3 million to Western Michigan University.

Availability of Financial Statements

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the various component units. To obtain their phone numbers, you may contact the State Budget Office, Office of Financial Management at (517) 373-1010.

Related Organizations

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

The State's Governor is responsible for appointing a majority of the members of the board of the Education Achievement Authority established through an inter-local agreement between Eastern Michigan University and Detroit Public Schools. The State's accountability for this organization does not extend beyond the Governor's appointments.

The State's Governor is responsible for appointing the members of the board of the Michigan Health Endowment Fund, but the State's accountability does not extend beyond making the appointments.

The State's Governor is responsible for appointing members of the council of the Local Community Stabilization Authority. The State Legislature appropriated \$19.3 million to the Authority in fiscal year 2016, with no additional financial support beyond that appropriation.

Joint Ventures

As discussed in more detail in Note 7, the State participates in two joint ventures. Their financial activities are not included in the State's fund financial statements, but the State's equity interest is recorded as an asset in the Statement of Net Position.

Michigan

Notes to the Financial Statements

Jointly Governed Organizations

The State, the University of Michigan, Michigan State University, and Wayne State University appoint members of the board of the Michigan Public Health Institute (MPHI), a nonprofit corporation. MPHI was established to plan, promote, and coordinate health services research with a public university or a consortium of public universities in the State. The State does not appoint a majority of the board, has no rights to the assets, and is not responsible for debts of MPHI. Therefore, the State's accountability for MPHI does not extend beyond making the appointments. During fiscal year 2016, the State awarded contracts totaling \$98.2 million to MPHI.

The City of Detroit, Charter County of Wayne, and the Department of Health and Human Services of the State of Michigan appoint members of the board of the Detroit Wayne County Health Authority (DWCHA), a public agency. The DWCHA was established to plan, promote, and coordinate health services for at-risk population in the City of Detroit and Wayne County. The State does not appoint a majority of the board, has no right to the assets, and is not responsible for debts of DWCHA; therefore, the State's accountability for DWCHA does not extend beyond making the appointments. During fiscal year 2016, the State awarded contracts totaling \$1.1 million to DWCHA.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

The **Statement of Net Position** presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three categories:

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

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

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus and Basis of Accounting

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

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

Michigan
Notes to the Financial Statements

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation

The State reports the following major governmental funds:

The General Fund is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

The State reports the following major enterprise funds:

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Permanent Funds – report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry.

Proprietary Fund Types:

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

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

Fiduciary Fund Types:

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

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

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

Fiscal Year-Ends

All funds and discretely presented component units are reported using fiscal years which end on September 30, except for MSHDA and the 10 State universities, which utilize June 30 year-ends and the Farm Produce Insurance Authority and the Venture Michigan Fund which have December 31 year-ends.

Michigan
Notes to the Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as “Cash and cash equivalents” is equal to the total of the amounts reported on the Statement of Net Position as “Cash,” “Cash on deposit with fiscal agent,” and “Equity in Common Cash,” less the amount of “Warrants outstanding.”

Cash

Cash reported on the Statement of Net Position and the Balance Sheet consists of petty cash, undeposited receipts, deposits in transit to the Common Cash pool, and cash equivalents such as short-term investments with original maturities of less than three months that are used for cash management, rather than investing activities.

Equity in Common Cash

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

Taxes Receivable

Taxes receivable represent amounts due to the State at September 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered “available” (i.e., received by the State within approximately 60 days after year-end) is recorded as revenue; the remainder is recorded as deferred inflows of resources. Application of the measurability and availability criteria regarding taxes is described in Note 6.

Amounts Due From Federal Agencies

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

Inventories

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

Investments

Generally, investments are reported at fair value, consistent with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB Statement No. 72, Fair Value Measurement and Application. Short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury obligations are reported at amortized cost. Additional disclosures describing investments are provided in Note 8.

Security Lending Collateral

Securities on loan for cash collateral are reported in the Statement of Net Position. Liabilities resulting from the security lending transactions are also reported. Additional disclosures describing security lending transactions are provided in Note 8.

Other Assets

Other assets include receivables, amounts held in escrow, and other types of assets not reported on other lines.

Mortgages and Loans Receivable

Mortgages and loans receivable are reported net of unamortized premiums, discounts, and allowances for possible losses.

Capital Assets

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

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

Michigan
Notes to the Financial Statements

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

Deferred Outflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period; they increase net position, similar to assets. Note 27 provides further detail on the components of deferred outflows of resources.

Warrants Outstanding

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

Income Tax Refunds Payable

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

Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain games, most notable the lotto games. At September 30, 2016, long-term prize awards of \$255.1 million were reported at a present value of \$171.7 million, using discount rates ranging from 3.4 to 7.0 percent.

Non-installment prize awards and the portion of long-term awards payable during the next fiscal year, totaling \$87.7 million, are included with "Accounts payable and other liabilities" on the Statement of Net Position.

Unearned Revenue

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

Long-Term Liabilities

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

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

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

Compensated Absences

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

Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 296 to 356 hours. The maximum accumulation that may be paid off is 40 hours less than the total hours that may be accumulated. Employees receive a 100 percent termination payment upon separation based upon their final rate of pay. The liability for annual leave is recorded at the maximum accumulation amounts in accordance with GAAP, as it is probable that the State will compensate employees through paid time off, for the hours earned in excess of the total that may be paid off. The liability for annual leave is valued at 100 percent of the balance plus the State's share of social security and retirement contributions.

Employee sick leave balances accumulate without limit. Termination payments are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50.0 percent of the employee's sick leave accumulation, times their last rate of pay. When separating for any other reason, employees are paid a percentage of their unused sick leave that increases from 0.0 to 50.0 percent, depending upon the balance of their sick leave hours. Sick leave is valued at 0.0 to 50.0 percent plus the State's share of social security contributions, based on the pay rates in effect as of September 30, 2016.

The State instituted a banked leave time program in fiscal year 2004 whereby eligible employees work a regular schedule but receive pay for a reduced number of hours. The banked leave time program was utilized in fiscal years 2005, 2006, and 2010.

The unpaid hours worked accrue to a banked leave time account. Upon an employee's separation, death, or retirement from State service, unused banked leave time hours shall be contributed by the State to the employee's account within the State of Michigan 401K Plans, and if applicable, to the State of Michigan 457 Plans. The banked leave liability is valued at the pay rates in effect as of September 30, 2016.

Michigan

Notes to the Financial Statements

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

Deferred Inflows of Resources

Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future period; they decrease net position, similar to liabilities. Note 27 provides further detail on the components of deferred inflows of resources.

Net Position/Fund Balance

The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources is “Net Position” on the government-wide, proprietary, and fiduciary fund financial statements, and “Fund Balance” on governmental fund financial statements.

Fund Balance Classifications

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

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

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

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

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

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

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

Revenues and Expenditures/Expenses

Government-Wide Financial Statements

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., general government, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

Interest on Long-Term Debt

Interest charges on the State’s general long-term liabilities do not qualify as a direct expense of a function and are reported on this line, unless the borrowing is essential to the creation or continuing existence of a program. During fiscal year 2016, interest charges on general long-term liabilities totaling \$58.9 million were reported as functional expenses.

Fund Financial Statements

In the governmental fund financial statements, revenues are reported by sources. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted.” General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. When both general purpose and restricted funds are available for use, it is the State’s policy to use restricted resources first.

Michigan
Notes to the Financial Statements

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

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

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (i.e., salaries, depreciation, and purchases for resale). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources

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

Reimbursements

Reimbursements result when a fund originally making a disbursement receives resources from another fund to which the expenditure/expense is more properly attributable. For example, the State uses this method when the administrative costs of proprietary funds, discretely presented component units, or pension (and other employee benefit) trust funds are appropriated in the General Fund.

Interfund Services Provided and Used

When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser expenditure or expense, depending upon the fund type.

Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

Other Financing Uses

These reductions of governmental fund resources in fund financial statements normally result from transfers to other funds.

Interfund Activity and Balances

Interfund Activity

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

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

Interfund Balances

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

NOTE 2 – FUNDS AND COMPONENT UNITS BY CLASSIFICATION

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

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

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Notes to the Financial Statements

PRIMARY GOVERNMENT:

MAJOR FUNDS

Governmental:

General Fund* (p. 38)
School Aid Fund* (p. 38)

Proprietary:

State Lottery Fund (p. 44)
Michigan Unemployment Compensation Funds (p. 44)

NON-MAJOR FUNDS

Governmental:

Special Revenue Funds:

Transportation Related:

Michigan Transportation Fund* (p. 168)
Comprehensive Transportation Fund* (p. 168)

Conservation, Environment, and Recreation Related:

Michigan Conservation and Recreation Legacy Fund* (p. 174)
Michigan Game and Fish Protection Trust Fund (p. 174)
Michigan Nongame Fish and Wildlife Trust Fund* (p. 175)
Forest Development Fund* (p. 175)
Bottle Deposits Fund (p. 175)

Regulatory and Administrative Related:

Homeowner Construction Lien Recovery Fund* (p. 182)
Michigan Employment Security Act – Administration Fund* (p. 182)
Safety Education and Training Fund* (p. 182)
Second Injury Fund (p. 182)
Self-Insurers' Security Fund (p. 182)
Silicosis, Dust Disease, and Logging Industry Compensation Fund (p. 183)
State Construction Code Fund* (p. 183)
Utility Consumer Representation Fund (p. 183)
Unemployment Obligation Trust Fund (p. 183)
State Casino Gaming Fund* (p. 183)

Other State Funds:

21st Century Jobs Trust Fund* (p. 192)
Michigan Merit Award Trust Fund* (p. 192)
Children's Trust Fund* (p. 192)
Military Family Relief Fund* (p. 193)
Miscellaneous Special Revenue Funds (p. 193)

Debt Service Funds:

Combined State Trunkline Bond and Interest Redemption Fund (p. 200)
Combined Comprehensive Transportation Bond and Interest Redemption Fund (p. 200)
Recreation and Environmental Protection Bond Redemption Fund (p. 200)
School Loan Bond Redemption Fund (p. 201)
State Building Authority (p. 201)

Capital Projects Funds:

State Trunkline Fund* (p. 206)
State Aeronautics Fund* (p. 206)
Combined State Trunkline Bond Proceeds Fund (p. 206)
Combined Comprehensive Transportation Bond Proceeds Fund (p. 206)
Transportation Related Trust Funds (p. 207)
Combined Recreation Bond Fund (p. 207)
State Building Authority (p. 207)
Advance Financing Funds (p. 207)

Permanent Funds:

Michigan Natural Resources Trust Fund* (p. 214)
Michigan State Parks Endowment Fund* (p. 214)
Michigan Veterans' Trust Fund* (p. 214)

Proprietary:

Enterprise Funds:

Attorney Discipline System (p. 220)
Liquor Purchase Revolving Fund (p. 220)

Internal Service Funds:

Correctional Industries Revolving Fund (p. 224)
State Sponsored Group Insurance Fund (p. 224)
Information Technology Fund (p. 224)
Office Services Revolving Fund (p. 225)
Motor Transport Fund (p. 225)
Risk Management Fund (p. 225)

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Fiduciary:

Pension (and other employee benefit) Trust Funds:

State of Michigan 457 Plans (p. 232)
Legislative Pension Benefits Fund (p. 232)
Legislative Other Postemployment Benefits Fund (p. 232)
State Police Pension Benefits Fund (p. 232)
State Police Other Postemployment Benefits Fund (p. 233)
State Employees' Pension Benefits Fund (p. 233)
State Employees' Other Postemployment Benefits Fund (p. 233)
Public School Employees' Pension Benefits Fund (p. 233)
Public School Employees' Other Postemployment Benefits Fund (p. 233)
Judges' Pension Benefits Fund (p. 233)
Judges' Other Postemployment Benefits Fund (p. 234)
Military Pension Benefits Fund (p. 234)
State of Michigan 401K Plans (p. 234)

Private Purpose Trust Funds:

Michigan Education Savings Program (p. 240)
Escheats Fund (p. 240)
Gifts, Bequests, and Deposits Investment Fund (p. 240)
Hospital Patients' Trust Fund (p. 240)

Agency Funds:

Environmental Quality Deposits Fund (p. 243)
Insurance Carrier Deposits Fund (p. 243)
City Income Tax – Trust Fund (p. 243)
Child Support Collection Fund (p. 243)
Social Welfare Fund (p. 243)

DISCRETELY PRESENTED COMPONENT UNITS:

Authorities:

Major Funds:

Michigan Finance Authority (p. 54)
Michigan State Housing Development Authority (p. 54)
Michigan Strategic Fund (p. 54)

Non-Major Funds:

Farm Produce Insurance Authority (p. 248)
Land Bank Fast Track Authority (p. 248)
Mackinac Bridge Authority (p. 248)
Mackinac Island State Park Commission (p. 248)
Michigan Early Childhood Investment Corporation (p. 249)
Michigan Economic Development Corporation (p. 249)
Michigan Education Trust (p. 249)
State Bar of Michigan (p. 249)
Venture Michigan Fund (p. 249)

State Universities (1):

Major Funds:

Western Michigan University (p. 55)

Non-Major Funds:

Central Michigan University (p. 254)
Eastern Michigan University (p. 254)
Ferris State University (p. 254)
Grand Valley State University (p. 254)
Lake Superior State University (p. 255)
Michigan Technological University (p. 255)
Northern Michigan University (p. 255)
Oakland University (p. 255)
Saginaw Valley State University (p. 255)

- (1) Michigan State University, the University of Michigan, and Wayne State University are not included in the State's reporting entity because they have separately elected governing boards and are legally separate from the State. The State provides significant funding to support these institutions; however, under GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61, criteria, they are considered fiscally independent special-purpose governments.

NOTE 3 – BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Major Constitutional and Statutory Provisions

Balanced Budget Requirements

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

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

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

Local Spending Requirements

Article 9, Section 30, of the State Constitution requires that State spending to, or on behalf of, local units of government shall not fall below a specified percentage of total State spending. The percentage, recalculated effective with fiscal year 1993, is 48.97 percent.

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Notes to the Financial Statements

Final calculations establishing the State's compliance with this constitutional provision for fiscal year 2016 are not yet complete. For fiscal year 2015, 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 55.25 percent, reflecting payments that exceeded the minimum required by \$1.9 billion. The State expects that payments to local units of government will exceed the minimum requirement for fiscal year 2016.

Revenue Limits

Article 9, Section 26, of the State Constitution restricts State revenues to a ceiling that is based upon revenues as a proportion of total personal income for the State. The base year ratio, determined in fiscal year 1979, in relation to calendar year 1977 personal income, is 9.49 percent. Both the constitutional language and implementing statutes provide for other adjustments to the revenue and personal income calculations. If revenues exceed the limit by 1.0 percent or more, the amount in excess must be refunded to personal income tax payers and payers of the State's Corporate Income Tax. If the limit is exceeded by an amount less than 1.0 percent, the excess may be deposited into the State's Budget Stabilization Fund. The calculations determining the State's compliance with this constitutional provision for fiscal year 2016 are not final. For fiscal year 2015, the most recent year for which final calculations are available, total State revenues subject to this limitation were beneath the constitutional limit by \$7.4 billion. The State expects that total State revenues subject to the limitation will not exceed the limit for fiscal year 2016.

Budget Stabilization Fund

The Counter-Cyclical Budget and Economic Stabilization Fund ("Budget Stabilization Fund" or "Rainy Day Fund") was created in 1977 to assist in stabilizing revenue during periods of economic recession. This fund currently operates under Sections 18.1351 - 18.1359 of the Michigan Compiled Laws, as amended. In general, the law requires payments into the fund when real economic growth exceeds 2.0 percent and allows withdrawals from the fund when real economic growth is less than 0.0 percent. Funds can also be withdrawn when the State's unemployment rate exceeds 8.0 percent or upon appropriation to finance capital outlay or other projects, or for other purposes designated by the Legislature. The Counter-Cyclical Budget and Economic Stabilization Fund is accounted for as a subfund of the General Fund where its fund balance is committed.

The following table summarizes the transactions for the fund at September 30 (in millions):

Beginning committed fund balance	\$ 498.1
Interest income	1.7
Tobacco Settlement proceeds	17.5
Deposits	95.0
Withdrawals	-
Ending committed fund balance	<u>\$ 612.4</u>

During fiscal year 2014, \$194.8 million was transferred to the Michigan Settlement Administration Authority to support the Detroit bankruptcy settlement. That withdrawal will be repaid to the fund in the amount of \$17.5 million annually from tobacco settlement funds, beginning in fiscal year 2015.

School Aid Fund Budgetary Provisions

The School Aid Stabilization Fund is a separate account within the School Aid Fund created under Section 388.1611a of the Michigan Compiled Laws. Any unexpended or unencumbered state school aid fund revenue is deposited into this fund at the end of each fiscal year. The amounts accumulated in this fund are carried forward and shall be expended only for purposes for which state school aid money may be expended. The School Aid Stabilization Fund ending restricted fund balance is \$168.2 million for fiscal year 2016.

Budgetary Overexpenditures

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

General Fund	
Health and Human Services	\$ 1.0
General Fund Total	<u>\$ 1.0</u>

NOTE 4 – ACCOUNTING CHANGES AND RESTATEMENTS

General Fund

Beginning fund balance for the General Fund and beginning net position for the governmental activities of the government-wide statements, were increased by \$24.2 million, to reflect the transfer of the Michigan Energy Office from the Michigan Strategic Fund (MSF), a discretely presented component unit, to the Department of Licensing and Regulatory Affairs (LARA) per Executive Order 2015-10.

Allocation of GASB Statement No. 45, Net Other Postemployment Benefit Obligation (NOPEBO), Liability

In examining the practice of the allocation of the State's Net Position Liability (NPL) to proprietary funds, the State determined it was necessary to also allocate the liability measured under Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the NOPEBO, to the proprietary funds. The allocation resulted in a decrease in the NOPEBO liability and an increase in beginning net position of \$15.7 million in governmental activities and a corresponding increase in the NOPEBO liability and decrease in beginning net position in business-type activities in government-wide financial statements.

The NOPEBO allocation also had the following effect on the individual proprietary fund financial statements (in millions):

<u>Fund</u>	<u>NOPEBO Liability</u>	<u>Beginning Net Position</u>
State Lottery Fund	\$ 9.1	\$ (9.1)
Liquor Purchase Revolving Fund	6.6	(6.6)
Correctional Industries Revolving Fund	2.7	(2.7)
Information Technology Fund	97.0	(97.0)
Office Services Revolving Fund	5.4	(5.4)
Motor Transport Revolving Fund	1.4	(1.4)
Risk Management Fund	0.3	(0.3)
Total	<u>\$ 122.5</u>	<u>\$ (122.5)</u>

Department of Talent and Economic Development – Talent Investment Agency

The Michigan Unemployment Compensation Funds, a proprietary fund within the Michigan Unemployment Insurance Agency, Department of Talent and Economic Development (TED), increased its beginning net position by \$18.5 million as a result of federal guidance related to penalties previously collected. This also resulted in a corresponding increase for business-type activities in the government-wide financial statements.

Michigan Economic Development Corporation

The Michigan Economic Development Corporation, a discretely presented component unit, decreased its beginning net position by \$2.9 million to reflect the implementation of GASB Statement No. 72, Fair Value Measurement and Application.

Eastern Michigan University

Eastern Michigan University, a discretely presented component unit, increased investments by \$3.4 million and decreased capital assets by \$4.8 million. As a result, its beginning net position was decreased by \$1.5 million to reflect the implementation of GASB Statement No. 72.

Michigan Strategic Fund

MSF, a discretely presented component unit:

1. Decreased its beginning net position by \$24.2 million, to reflect the transfer of the Michigan Energy Office to LARA per Executive Order 2015-10.
2. Increased its beginning net position by \$1.6 million to reflect the transfer of the Workforce Development Agency to TED with Executive Order 2014-12.
3. Decreased its beginning net position by \$3.1 million to reflect the implementation of GASB Statement No. 72.

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Notes to the Financial Statements

Michigan Finance Authority

The State reexamined its prior year application of GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, to a transaction involving the primary government and the Michigan Finance Authority (MFA), a discretely presented component unit. As a result, the beginning net position for governmental activities in the government-wide statements was decreased by \$1.7 billion and beginning net position was increased by \$1.7 billion for MFA to reflect the estimated amount of future State unemployment obligation assessment revenue pledged for the repayment of bonds issued by MFA.

State of Michigan 457 Plans and State of Michigan 401K Plans

Prior to fiscal year 2016, the State of Michigan 457 Plans fund was titled the State of Michigan Deferred Compensation Funds and included a portion of the State of Michigan 401K Plan related to deferred compensation for State employees. Also, prior to fiscal year 2016 the State of Michigan 401K Plans fund was titled State of Michigan Defined Contribution Retirement Fund.

As allowed within the framework of GASB Statement No. 34, Basic Financial Statements – And Management Discussion and Analysis – For State and Local Governments, the 401K and 457 defined contribution retirement plans are now reported separately. This reporting change was made to improve the comparability with the 401K and 457 plans separately issued financial statements. As a result, beginning net position of the 401K Plans increased by \$1.7 billion, and beginning net position of the State of Michigan 457 Plans fund decreased by \$1.7 billion.

Military Retirement System

Effective January 1, 2016, in accordance with Executive Order 2015-13, the Military Retirement System (MRS) is now administered through a trust, and therefore subject to the requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, as implemented in fiscal year 2015. The resulting impact of GASB Statement No. 68 and GASB Statement No. 71 on MRS was to eliminate the \$16.8 million net pension obligation and establish an NPL with a balance of \$84.2 million. The net effect is an increase in liability and a reduction of beginning net position of \$67.4 million for governmental activities in the government-wide statements.

NOTE 5 – TREASURER’S COMMON CASH

General Accounting Policies

The State Treasurer (Treasurer) manages the State’s Common Cash pool, which is used by most State funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund’s balance is treated as equity in the pool, and presented in this report as “Equity in common cash.” Many funds, including pension (and other employee benefit) trust funds, use their equity in the pool as a short-term investment vehicle.

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

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. The Treasurer has placed a “cap,” or limit, on the amount of interest that can be earned by some State funds. These “capped” funds are limited to a maximum rate determined by the Treasurer. For the remaining “uncapped” funds, earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds’ equity in the pool.

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

Investments and Deposits

The investment authority for the Common Cash pool is found in Sections 21.141 - 21.147 of the Michigan Compiled Laws (MCL). The Treasurer may invest surplus funds belonging to the State in bonds, notes, and other evidences of indebtedness of the United States Government and its agencies and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

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Notes to the Financial Statements

The Treasurer invests excess cash in short-term investments or cash equivalents. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2016.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. To date, these programs have not resulted in any principal losses.

Emergency Financial Assistance Loan Program: This program provides for emergency loans to local units of government, and is the most significant of the special investment programs. The Emergency Financial Assistance Loan Board, established by MCL Section 141.932, administers the program.

Loan authorization limits are established in MCL Section 141.933. For the period beginning October 1, 2011, and ending on September 30, 2018, the board may authorize loans as follows (in millions):

<u>Recipient</u>	<u>Max Outstanding</u>	<u>Max Receipient Balance</u>
Municipalities other than school districts	\$ 48.0	\$ 20.0
Municipal school district transitional operating costs	150.0	150.0
Municipal school districts	70.0	20.0
Wayne County	159.9	159.9

In fiscal year 2000, the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to \$159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2016, was \$53.8 million. The interest rate is reset July 1 of each year in accordance with the loan agreement. Effective November 1, 2009, the Wayne County emergency loan was reclassified from an interest-bearing loan to a zero percent loan.

The change in interest terms for the loan will be in effect until the debt obligations for the Detroit Regional Convention Facility Authority are retired, or 2039, whichever comes first. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State taxes collected on cigarette sales. A principal repayment of \$0.9 million was made on the loan in fiscal year 2016.

In fiscal year 2016 the Emergency Financial Assistance Loan Board authorized the lending of \$150.0 million to the School District of the City of Detroit to finance the transitional operating cost of the School District of the City of Detroit to the new district, the Detroit Public Schools Community District in accordance with Public Acts 192 and 197 of 2016. The note bears a 1.3 percent per annum interest rate that may be adjusted by the local Emergency Financial Assistance Loan Board. Interest payments are due every 6 months starting in September 2016 with principal payments starting September 2022. The note will be paid off by 2026.

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

Assets	
Cash on hand	\$ -
Demand deposits	1,384.0
Time deposits - regular	-
Prime commercial paper - at cost	3,942.7
Interest receivable	2.0
Emergency loans to local units - at cost	293.4
Total assets	<u>\$ 5,622.1</u>
Equities	
Fund equities (net) in common cash (1):	
Governmental activities	\$ 3,452.4
Business-type activities	244.7
Fiduciary funds	410.6
Discretely presented component units	1,512.8
Timing Difference (2)	1.6
Net fund equities	<u>\$ 5,622.1</u>

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Notes to the Financial Statements

- (1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 18 summarizes interfund receivables and liabilities.
- (2) Subsequent to the June 30, 2016 year-end of the Michigan State Housing Development Authority (MSHDA), a discretely presented component unit, \$1.6 million of equity in common cash was transferred from the General Fund to MSHDA resulting in a reconciling item due to the timing difference.

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

Common Cash Deposits

Custodial Credit Risk

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

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

Uncollateralized

Collateralized with securities held by the pledging financial institution, or

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

The Treasurer's policy requires the following criteria to lessen custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds; a bank, savings and loan association, or credit union holding State funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; no deposit in any financial organization may be in excess of 50.0 percent of the net worth of the organization.

At September 30, 2016, the carrying amount of deposits, including time and demand deposits, was \$1.4 billion. The deposits were reflected in the accounts of the banks at \$1.4 billion. Of the bank balance, \$4.8 million was covered by federal depository insurance and \$1.4 billion was collateralized with securities held by the State's agent in the State's name. There were demand deposits of \$3.3 million exposed to custodial credit risk that were uninsured and uncollateralized. Compensating balances kept in demand deposit accounts to avoid service charges totaled \$1.0 billion at September 30, 2016.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of deposits.

MCL Section 487.714 requires State deposits be held in a financial institution which maintains a principal office or branch office located in the State. The State had no Common Cash deposits subject to foreign currency risk at September 30, 2016.

Common Cash Investments

Types of Investments

Common Cash investments include prime commercial paper, certificates of deposit, and emergency municipal loans.

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. Custodial credit risk, credit risk, and interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk

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

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Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either:

The counterparty, or

The counterparty's trust department or agent but not in the government's name.

The Treasurer does not have an investment policy for managing custodial credit risk. At September 30, 2016, Common Cash investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations.

Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services: Standard and Poor's (A-1), and Moody's (P-1). Borrowers must have at least \$400.0 million in commercial paper outstanding, and the Treasurer may not invest in more than 10 percent of a borrower's outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating, in which case the investment is not to exceed \$300.0 million.

Emergency municipal loans are evidenced by unrated notes held by the State in the State's name. At September 30, prime commercial paper investments were rated at A-1 or P-1.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2016, the fair value of cash equivalents was \$3.9 billion; the weighted average maturity was 25 days.

The Treasurer does not have a policy for controlling interest rate risk regarding the Common Cash special loan programs described earlier. These loan programs are investments created through legislation. Although some interest rate risk exposure exists, this risk is not a consideration when entering into these loan programs.

NOTE 6 – TAXES RECEIVABLE

Taxes receivable represent amounts due to the State at September 30, 2016, for revenues earned during the fiscal year that will be collected sometime in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectibles.

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

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

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

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

Michigan
Notes to the Financial Statements

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

Tax	General Fund	Other Governmental Funds	Total
Sales & use	\$ 419.8	\$ 768.0	\$ 1,187.9
Individual Income	2,560.3	369.3	2,929.6
SBT/MBT/CIT	606.1	-	606.1
State education (property)	-	1,334.5	1,334.5
Telephone & telegraph	14.1	-	14.1
Motor fuel	-	146.9	146.9
Insurance - retaliatory	89.6	-	89.6
Tobacco products	70.7	42.4	113.2
Quality assurance assessment	156.7	-	156.7
Health insurance claims assessment	59.5	-	59.5
Other	25.2	12.1	37.3
Penalties & Interest	1,020.5	-	1,020.5
Gross taxes receivable	5,022.6	2,673.3	7,695.9
Less allowances for uncollectibles	2,245.3	474.8	2,720.1
Total taxes receivable (net)	<u>\$ 2,777.4</u>	<u>\$ 2,198.5</u>	<u>\$ 4,975.8</u>
<u>As reported on the Statement of Net Position</u>			
Current taxes, interest, and penalties receivable	2,564.3	2,131.7	4,696.0
Noncurrent taxes, interest, and penalties receivable	213.0	66.8	279.8
Total taxes, interest, and penalties receivable	<u>\$ 2,777.4</u>	<u>\$ 2,198.5</u>	<u>\$ 4,975.8</u>

NOTE 7 – JOINT VENTURES

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

Great Lakes Protection Fund

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

Contribution requirements were established based upon water consumption and usage. Contributions to GLPF are permanently restricted and are not available for disbursement. Michigan is the largest contributor, having made a contribution of \$25.0 million, constituting approximately 31.0 percent of the total. Michigan made its required contribution by issuing GLPF a general obligation bond authorized as part of the State's environmental protection bond program. No additional contributions from Michigan will be required.

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

Sault Ste. Marie Bridge Authority

The International Bridge in Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments. Effective September 1, 2009, the Sault Ste. Marie Bridge Authority (SSMBA) replaced the Joint International Bridge Authority. SSMBA consists of eight people, four appointed by each government. SSMBA oversees the operations and maintenance of the Bridge. The International Bridge Administration, an administrative entity within the Michigan Department of Transportation, is responsible for the day-to-day operations of the Bridge. SSMBA reimburses the State for costs incurred to provide these services.

For the period ending December 31, 2015 (SSMBA's most recently audited financial statements), its net position decreased by approximately \$5.5 million. The Bridge and one-half of the ancillary assets on Michigan's side of the Bridge, and in addition one-half of the joint funds not required to pay liabilities, and all funds reserved for capital projects on the Michigan half of the Bridge, represent the State's equity interest. The State is obligated to pay one-half of any claims incurred by SSMBA that are not covered by insurance or existing resources. The State's equity interest of \$14.1 million is reflected as an asset in the government-wide financial statements.

NOTE 8 – DEPOSITS AND INVESTMENTS

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

Deposits – Primary Government

Custodial Credit Risk

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

The Unemployment Insurance Agency administers, under the auspices of the federal government, the deposits of the MUCF. Tax collections are deposited in a clearing account as required by the Michigan Employment Security Act. Refunds are paid from that account; after the clearance of vouchers for refunds, all other money remaining in the fund, less amounts needed for refunds and judgments, must be deposited with the Secretary of the Treasury of the United States of America to the credit of the State in the Unemployment Trust Fund, established and maintained pursuant to Section 904 of the Social Security Act, 42 USC 1104. These deposits are maintained in the Federal Reserve Bank. At year-end, the carrying amount of these deposits, reported as cash in the Statement of Net Position, was \$14.2 million. The bank balance of the deposits was \$18.3 million; these deposits were either covered by federal depository insurance or were collateralized. Amounts reported as Cash on Deposit with Fiscal Agent, totaling \$3.1 billion, represent 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. MUCF is credited quarterly with trust fund investment earnings, as computed on a daily basis.

The bank deposits of the ADS were \$3.5 million; these deposits were covered by Federal Deposit Insurance Corporation insurance or were collateralized. ADS has no policy to address custodial credit risk. It assesses financial institutions' risk levels; only those with acceptable levels of risk are used as depositories.

The deposits of the MESP were reflected in bank accounts at \$0.2 million. These deposits were covered by depository insurance. The level of risk for each financial institution is evaluated and assessed; only those with an acceptable estimated risk level are used as depositories. MESP has no other policy for controlling this risk.

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Notes to the Financial Statements

Investments – Primary Government

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

Primary Government Total Investments (In millions)				
Investment Types	Retirement Systems	Deferred Compensation / Defined Contribution Funds	Other Funds	Total
Commercial paper	\$ 2,791.8	\$ -	\$ -	\$ 2,791.8
Money market funds	-	-	216.8	216.8
Other short-term	310.3	-	3.5	313.8
Separate accounts	-	2,323.0	-	2,323.0
Absolute return	9,283.8	-	-	9,283.8
Fixed income	7,999.6	-	838.2	8,837.8
Mutual funds	80.5	932.7	4,664.6	5,677.7
Pooled investment funds	-	3,610.1	-	3,610.1
Equities	15,826.6	-	-	15,826.6
Funding agreements	-	-	644.6	644.6
International	9,665.4	-	-	9,665.4
Real estate	6,530.1	-	-	6,530.1
Private equity	9,317.5	-	279.5	9,597.0
Accrued income	54.1	-	-	54.1
Unsettled investments	220.8	-	-	220.8
Total	<u>\$ 62,080.7</u>	<u>\$ 6,865.7</u>	<u>\$ 6,647.2</u>	<u>\$ 75,593.6</u>

As reported on the Statement of Net Position

Current investments	\$ 242.0
Noncurrent investments	<u>1,457.4</u>
Total investments	<u>\$ 1,699.4</u>

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

	Current Investments	Noncurrent Investments	Total
Governmental activities	\$ 216.8	\$ 1,265.7	\$ 1,482.5
Business-type activities	25.2	191.7	216.9
Fiduciary funds	<u>2,523.6</u>	<u>71,370.4</u>	<u>73,894.0</u>
Total Investments	<u>\$ 2,765.6</u>	<u>\$ 72,827.9</u>	<u>\$ 75,593.5</u>

Authority

Investment authority for the State's pension (and other employee benefit) trust funds is found in Michigan Compiled Laws (MCL) Section 38.1133. This law allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The law has prudence standards and requires that the assets of a retirement system shall: be invested solely in the interest of the participants and beneficiaries; be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries; and defray reasonable expenses of investing the assets of the State system.

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

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

The deferred compensation plans are invested in mutual funds, U.S. Treasury strips, money market funds, and pooled investment funds. During fiscal year 2016, the deferred compensation plans' investment activities were managed by a private investment firm, which invests as directed by members of the plan.

Michigan
Notes to the Financial Statements

Derivatives

The State Treasurer is also authorized to invest a limited amount of pension (and other employee benefit) trust funds in derivatives to provide additional diversification. Derivatives are used in managing the trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12.0 percent of the total trust funds' portfolio has been invested from time to time in future contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15.0 percent of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Option and future contracts traded daily on an exchange and settling in cash daily or having a limited and fully defined risk profile at an identified fixed cost are not subject to the derivative exposure limitation.

The State Treasurer entered into swap agreements with investment grade counterparties with maturity dates ranging from October 2016 to September 2017. Approximately one quarter of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At maturity the trust funds will receive either the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. U.S. Domestic LIBOR based floating rate notes and other income earning investments are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and other investments.

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

Additional details about derivative investments are included in the following table:

Pension (and Other Employee Benefit) Trust Funds Derivative Investments (In millions)							
Investment & Investment Type	Objective	% of Market Value	Notional Value	Investments At Fair Value*	Net Increase (Decrease) In Fair Value**	Investment Income Gain/Loss	Fair Value Subject to Credit Risk
U.S. Treasury Bond future contracts - fixed income	Enhance management flexibility, manage duration and yield curve exposure	0.0 %	\$ 7.1	\$ 0.1	\$ (0.4)	\$ -	\$ -
Options - equities	Use on single securities to provide downside protection and enhance current income	0.0	(119.8)	-	11.4	-	-
Swap agreements - international investments equities	Diversify the trust funds' portfolio by entering into swap agreements that are tied to stock market indices in 44 foreign countries	1.8	1,493.0	1,127.5	127.6	(0.3)	94.2
Swap agreements - equity investments	Diversify the trust funds' portfolio by entering into swap agreements that are tied to stock market indices in the domestic market	0.0	1,455.3	4.6	(0.5)	23.4	46.9
Totals			<u>\$ 2,835.7</u>	<u>\$ 1,132.2</u>	<u>\$ 138.0</u>	<u>\$ 23.1</u>	<u>\$ 141.1</u>

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

**Located in Net increase (decrease) in fair value of investments - Statement of Changes in Fiduciary Net Position

Michigan
Notes to the Financial Statements

Investment Pools

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

Repurchase Agreements

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

Risk

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either the counterparty, or the counterparty's trust department or agent, but not in the government's name. The State Treasurer does not have a policy for limiting custodial credit risk. As of September 30, 2016, there were no securities exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Short-term investments for the pension funds are in prime commercial paper and follow the same policy described in Note 5 for this type of investment. The ratings at September 30, 2016, are included in the debt investments table.

Investment grade and noninvestment grade securities may be acquired in compliance with parameters set forth in MCL Sections 38.1132 – 38.1141, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2016, the system was in compliance with the policy in all material aspects. The primary government's debt investments as of September 30, 2016, are presented below. Note that securities backed by the full faith and credit of the United States government are excluded.

Michigan
Notes to the Financial Statements

Debt Investments (In millions)				
Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
Pension (and Other Employee Benefit) Trust Funds:				
Retirement Systems:				
Commercial paper	\$ 2,238.7	A-1	\$ 2,238.7	P-1
Government securities				
U.S. agencies - sponsored	0.1	AAA	237.2	Aaa
	237.2	AA	-	Aa
Corporate bonds & notes	236.7	AAA	319.4	Aaa
	444.7	AA	317.5	Aa
	903.0	A	1,146.7	A
	2,081.0	BBB	1,958.0	Baa
	506.2	BB	563.3	Ba
	448.1	B	544.1	B
	140.4	CCC	162.6	Caa
	4.1	CC	47.6	Ca
	-	C	3.1	C
	42.0	D	-	D
	763.8	Unrated	507.8	Unrated
International - corporate bonds & notes*	257.7	AA	257.7	Aa
	105.3	A	257.3	A
	568.3	BBB	441.4	Baa
	25.1	Unrated	-	Unrated
Mutual funds**	45.6	A	45.6	A
	25.9	BBB	25.9	Baa
	93.4	B	93.4	B
Total	\$ 9,167.3		\$ 9,167.3	
Deferred Compensation/Defined Contribution:				
Common trust funds	\$ 584.0	Unavailable	\$ 584.0	Baa - Aaa
	194.2	AAA	-	Aaa
	5.9	Below B - AAA	200.0	Unavailable
Stable Value Funds	1,057.3	A - AAA	1,057.3	Unavailable
	69.7	Unavailable	69.7	A - Aa
Mutual funds	139.9	Below B - AAA	139.9	Unavailable
	113.5	Unrated	113.5	Unrated
Total	\$ 2,164.6		\$ 2,164.6	
Other Primary Government Funds:				
Government securities				
U.S. agencies - sponsored	\$ -	AAA	\$ 4.4	Aaa
	4.4	AA	-	Aa
Corporate bonds & notes	6.0	AAA	6.0	Aaa
	35.2	AA	26.2	Aa
	144.0	A	159.2	A
	255.8	BBB	243.2	Baa
	-	Unrated	6.3	Unrated
Municipal bonds	45.8	AA	45.8	Aa
Mutual funds	-	BB	69.2	Ba
	1,759.8	Unrated	1,690.6	Unrated
Total	\$ 2,250.9		\$ 2,250.9	
Total Primary Government	\$ 13,582.8		\$ 13,582.8	

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

**Average rating

Michigan
Notes to the Financial Statements

Interest Rate Risk

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

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2016, the fair value of prime commercial paper was \$2.2 billion; the weighted average maturity was 21 days.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the pension trust funds are invested with a long-term strategy with no investments with a maturity of less than one year at the time of purchase. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to those of the U.S. Treasury determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration; higher interest rates result in longer duration.

As of September 30, the pension trust funds had the following long-term debt securities:

Pension (and Other Employee Benefit) Trust Funds Debt Securities (In millions)		
	Fair Value	Duration In Years
Retirement Systems:		
Government securities		
U.S. Treasury bonds	\$ 1,474.3	5.3
U.S. agencies - backed	555.7	4.0
U.S. agencies - sponsored	237.2	3.2
Total Governmental	2,267.2	
Corporate bonds & notes	5,704.9	4.3
International - corporate bonds & notes*	956.5	0.1
Mutual fund - fixed income	29.9	2.7
Total	\$ 8,958.5	
Deferred Compensation/Defined Contribution:		
Common trust funds		
SSgA bond market index fund	\$ 584.9	7.7
SSgA cash series Treasury fund	194.2	0.1
Prudential High Yield Fund	5.9	6.7
Total Common Trust Funds	785.0	
Stable value funds		
Synthetic guaranteed investment contracts	1,057.3	4.0
SSgA STIF	69.7	-
Total Stable Value Funds	1,127.1	
Mutual funds		
PIMCO total return fund	139.9	9.1
Total Mutual Funds	139.9	
Total	\$ 2,051.9	
Total Pension (and Other Employee Benefit) Trust Funds	\$ 11,010.4	

*International debt securities contain domestic government and corporate securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

Michigan
Notes to the Financial Statements

Fair Value of Investments

The State of Michigan (SOM) categorizes their fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Not all investments held by SOM are recorded at fair value. GASB Statement No. 72, Fair Value of Measurement and Application, allows for certain investments to be recorded at cost (or amortized cost or any other valuation method), and therefore, they are not presented in the fair value hierarchy table. Equity and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity swaps and fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique and other significant observable inputs. Equity and fixed income securities classified as Level 3 of the fair value hierarchy are valued using third party data and reports that are unobservable. Securities reported at Net Asset Value (NAV) are valued using the most recent third party statements adjusted for cash flows as of September 30, 2016. Investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

Michigan
Notes to the Financial Statements

The Pension (and Other Employee Benefit) Trust Funds have the following recurring fair value measurements as of September 30 (in millions):

	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 56.1	\$ 56.1	\$ -	\$ -
Equity				
Depository Receipts	131.3	131.3	-	-
Warrants	3.4	3.3	-	0.1
Publicly Traded Partnerships	67.8	67.8	-	-
Common Stocks	15,777.4	15,775.6	-	1.8
Preferred Stocks	1.3	1.3	-	-
Equity Swaps	79.8	-	69.2	10.6
Commingled Funds and Exchange-Traded Funds (ETF)	7,561.2	7,561.2	-	-
Real Estate Investment Trusts	640.1	640.1	-	-
Equity Total	<u>\$ 24,262.3</u>	<u>\$ 24,180.6</u>	<u>\$ 69.2</u>	<u>\$ 12.5</u>
Fixed Income				
Asset Backed	428.4	-	428.0	0.4
Corporate Bonds	5,294.3	-	5,262.5	31.8
Commercial Mortgage-backed	1,006.9	-	1,006.9	-
Government Issues	1,636.2	1,474.3	151.9	10.0
U.S. Agency Issues	398.8	-	398.8	-
Convertible Bonds	0.6	-	0.6	-
Futures on Fixed Income	7.1	7.1	-	-
Fixed Income Total	<u>\$ 8,772.3</u>	<u>\$ 1,481.4</u>	<u>\$ 7,248.6</u>	<u>\$ 42.2</u>
Total Investments Measured at Fair Value	<u>\$ 33,090.7</u>	<u>\$ 25,718.2</u>	<u>\$ 7,317.8</u>	<u>\$ 54.7</u>
Investments Measured at NAV:				
Absolute Return Total	3,966.5			
Real Return Total	5,191.9			
Private Equity Total	9,313.8			
Real Estate and Infrastructure Total	6,530.1			
Other Limited Partnerships	726.8			
Total Investments Measured at NAV	<u>\$ 25,729.0</u>			
Total Pension (and Other Employee Benefit) Trust Funds	<u>\$ 58,819.7</u>			

The Other Primary Government Funds have the following recurring fair value measurements as of September 30 (in millions):

	Total	Level 1	Level 2
Cash and Cash Equivalents	\$ 7.6	\$ 7.6	\$ -
Equity			
Commingled Funds and ETFs	4,733.8	4,733.8	-
Equity Total	<u>\$ 4,733.8</u>	<u>\$ 4,733.8</u>	<u>\$ -</u>
Fixed Income			
Asset Backed	2.1	-	2.1
Corporate Bonds	442.9	-	442.9
Commercial Mortgage-backed	23.6	-	23.6
Government Issues	289.5	71.7	217.8
U.S. Agency Issues	11.0	-	11.0
Fixed Income Total	<u>\$ 769.0</u>	<u>\$ 71.7</u>	<u>\$ 697.3</u>
Total Investments Measured at Fair Value	<u>\$ 5,510.4</u>	<u>\$ 4,813.1</u>	<u>\$ 697.3</u>
Investments Measured at NAV:			
Private Equity Total	247.2		
Real Estate Total	5.5		
Hedge Funds Total	26.8		
Total Investments Measured at NAV	<u>\$ 279.5</u>		
Total Other Primary Government Funds	<u>\$ 5,789.8</u>		

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Notes to the Financial Statements

Additional disclosures for fair value measurements of investments in certain entities that calculate the NAV per share (or its equivalent):

Pension (and Other Postemployment Benefit) Trust Funds:

Absolute Return Portfolio: This type invests in hedge funds and hedge funds of funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. For 97.9 percent of the investments, investors may redeem at various dates between January 1, 2017, and April 1, 2019. The remaining 2.1 percent is not redeemable on demand.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$4.0 billion and \$36.8 million, respectively.

Real Return and Opportunistic Portfolio: This type includes 62 funds that invest in private credit, tangible and intangible real assets, or other real return and opportunistic strategies. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next five to 10 years. This type also includes one fund that offers quarterly redemptions with 65 days of advanced notice.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$5.2 billion and \$2.5 billion, respectively.

Private Equity Portfolio: This type of investment includes investments in approximately 218 partnerships that invest in leveraged buyouts, venture capital, mezzanine debt, distressed debt, secondary funds and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$9.3 billion and \$6.3 billion, respectively. However, it is probable that all of the investments in this group will be sold at an amount different from the NAV per share (or its equivalent). Therefore, the fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments. As of September 30, 2016, a buyer for these investments has not been identified.

Real Estate and Infrastructure Portfolio: These funds include approximately 96 accounts (limited partnerships, limited liability companies, etc.) that invest in real estate or infrastructure related assets. The fair value has been determined in accordance with GAAP using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. These types of investments cannot be redeemed with the funds. Distributions from these funds will be received as the underlying investments are sold and liquidated over time. It is expected that the underlying assets will be sold over the next five to 15 years. However, buyers have not been determined so the fair value has been determined using the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$6.5 billion and \$1.6 billion, respectively.

Other Limited Partnerships:

The balance of plan assets reported at NAV includes:

- One limited partnership that invests in the equity of Japanese companies. The limited partnership permits partners to withdraw funds quarterly with 180 days of advanced notice.
- Two limited partnerships that invest in senior secured debt financing of a third-party investment fund. This investment cannot be redeemed by limited partners. The debt has a 10-year maturity, with partnership distributions to include principal as the loan collateral matures four years after the initial investment.
- One limited partnership permitting partners to redeem its debt securities quarterly with 60 days of advanced notice.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$726.8 million and \$135.0 million, respectively.

Other Primary Government Funds:

Private Equity Portfolio: This type of investment includes investments in 51 partnerships that invest in various credit strategies, real assets, and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

Michigan
Notes to the Financial Statements

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$247.2 million and \$74.1 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

Real Estate and Infrastructure Portfolio: This type of investment includes investment in five partnerships that invest primarily in multi-family preferred equity structure in the U.S. This type of investment can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of 10 to 12 years.

The total market value and unfunded commitments of these investments as of September 30, 2016, are \$5.5 million and \$14.7 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

Event-Driven Hedge Funds: This type includes five investments specializing in event-driven investing. It typically applies a fundamental value discipline to identify undervalued companies that have one or more specific catalysts to unlock the value. It focuses on "active shareholder engagement" and invests both long and short and across the capital structure including equity and debt.

These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. Distribution proceeds from the sale of partnership investments, dividends, or interest must be returned to the limited partners within 90 days following receipt by the partnership. Such distributable amounts shall increase the unfunded portion of the limited partnership commitment and may be called again for contribution to the partnership by the general partner.

It is expected that the underlying assets of the fund are liquidated over a period of three to six years. The total market value and unfunded commitments of these investments as of September 30, 2016, are \$26.8 million and \$19.4 million, respectively. Market price observability is impacted by a number of factors, including the type of investment and characteristics specific to the investment.

Michigan
Notes to the Financial Statements

State of Michigan 457 Plans and State of Michigan 401K Plans:

The plans have the following recurring fair value measurements as of September 30 (in millions):

State of Michigan 457 Plans:

	Total	Level 1	Level 2
Investments by fair value level:			
Mutual Funds	\$ 215.0	\$ 215.0	\$ -
Common Trust Funds	804.2	338.5	465.7
Tier III Investments*	35.9	35.9	-
Stable Value Fund	589.3	-	589.3
Voya Small Cap Growth Strategy Fund	33.6	-	33.6
Jennison Large Cap Growth Equity Fund	57.9	57.9	-
Artisan Mid Cap Fund	19.9	-	19.9
Dodge & Cox Stock Fund	123.7	123.7	-
Total Investments Measured at Fair Value	<u>\$ 1,879.6</u>	<u>\$ 771.1</u>	<u>\$ 1,108.6</u>

* Tier III investments exclude cash held in participant accounts totaling approximately \$7.2 million.

State of Michigan 401K Plans:

	Total	Level 1	Level 2
Investments by fair value level:			
Mutual Funds	\$ 717.6	\$ 717.6	\$ -
Common Trust Funds	2,805.8	1,165.4	1,640.4
Tier III Investments*	100.4	100.4	-
Stable Value Fund	537.8	-	537.8
Voya Small Cap Growth Strategy Fund	120.2	-	120.2
Jennison Large Cap Growth Equity Fund	201.6	201.6	-
Artisan Mid Cap Fund	61.2	-	61.2
Dodge & Cox Stock Fund	416.7	416.7	-
Total Investments Measured at Fair Value	<u>\$ 4,961.2</u>	<u>\$ 2,601.7</u>	<u>\$ 2,359.6</u>

* Tier III investments exclude cash held in participant accounts totaling approximately \$17.6 million.

Synthetic Guaranteed Investment Contract (SGIC)

SGIC investment derivatives within the Stable Value Fund contain a portfolio of underlying securities and a benefit responsive wrap contract. The wrap contract produces a floating rate of return that is adjusted periodically, but not below zero, to reflect the underlying investment portfolio and generally provide for participant withdrawals at contract value (principal plus accrued interest). As of September 30, 2016, the fair value of the SGIC's underlying investments was \$1.1 billion. The wrap contract did not have a value because the market value of the SGIC's underlying investments was higher than the SGIC's contract value; therefore, the wrap contract does not have a value.

As of September 30, the primary government, excluding pension trust funds, had the following debt securities:

Other Funds					
Debt Securities (In millions)					
Investment Type	Fair Value	Investment Maturities (In years)			
		Less Than 1	1 To 5	6 To 10	More Than 10
U.S. Treasury bonds	\$ 239.3	\$ 15.4	\$ 78.1	\$ 85.7	\$ 60.1
Municipal bonds	45.8	7.7	22.1	7.8	8.1
U.S. bonds - backed	34.5	-	6.1	0.1	28.3
U.S. agency bonds - sponsored	14.4	-	4.8	7.5	2.1
Corporate bonds	435.0	-	165.2	264.6	5.2
Mutual funds	1,690.6	41.1	41.4	1,608.1	-
Total	<u>\$ 2,459.6</u>	<u>\$ 64.3</u>	<u>\$ 317.7</u>	<u>\$ 1,973.9</u>	<u>\$ 103.7</u>

Michigan
Notes to the Financial Statements

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. The State invests in various global foreign securities. These investments are limited to 30.0 percent of the total assets of the system, and are additionally limited to 5.0 percent of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in MCL Sections 38.1133 and 38.1140. The types of foreign securities include fixed income, equities, mutual funds, real estate, and limited partnerships. At September 30, 2016, total foreign investments were \$11.7 billion. As of September 30, 2016, the State held the following investments subject to foreign currency risk:

Michigan
Notes to the Financial Statements

Pension (and Other Employee Benefit) Trust Funds						
Foreign Currency Risk (In millions)						
		Fair Value (In U.S. Dollars)				
		Private Equity, Real Estate, and Infrastructure	Fixed Income	Equity	International and Absolute Return Derivatives *	
Currency	Country					
Retirement Systems:						
Americas						
Dollar	Canada	\$	\$	7.5	\$	105.5
Peso	Mexico	-		14.3	-	6.5
Real	Brazil	-		10.8	-	-
Sol	Peru	-		1.4	-	-
Europe						
Euro	European Union	-		46.5	146.8	167.8
Franc	Switzerland	-		-	15.9	96.8
Krona	Sweden	-		3.3	0.6	36.8
Krone	Denmark	-		2.2	-	27.4
Krone	Norway	-		-	-	24.7
Sterling	United Kingdom	-		13.8	59.6	147.1
Forint	Hungary	-		8.5	-	-
Zloty	Poland	-		1.5	-	-
Leu	Romania	-		1.3	-	-
Asia/Pacific						
Dollar	Australia	-		-	0.8	42.7
Renminbi	China	34.6		-	15.0	-
Dollar	Hong Kong	-		-	-	45.8
Rupee	India	-		0.6	-	-
Yen	Japan	-		13.8	4.6	389.4
Dollar	New Zealand	-		-	-	6.0
Peso	Philippines	-		1.2	-	-
Dollar	Singapore	-		-	-	24.5
Won	South Korea	-		-	-	8.7
Rupiah	Indonesia	-		2.9	-	-
Ringgit	Malaysia	-		5.8	-	-
Dollar	New Taiwan	-		-	0.2	-
Middle East						
Shekel	Israel	-		-	3.0	20.0
Africa						
Rand	South Africa	-		5.6	0.4	-
World-wide						
Various	Various	2,892.6	-	54.9	7,084.4	
Total		\$ 2,927.2	\$ 141.0	\$ 303.1	\$ 8,234.2	
Deferred Compensation/Defined Contribution:						
Various	Various	\$ -	\$ -	\$ 2,119.6	\$ -	
Total		\$ 2,927.2	\$ 141.0	\$ 2,422.7	\$ 8,234.2	

*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2016 through September 2017, with an average maturity of 0.4 years.

Michigan Notes to the Financial Statements

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer. Other than obligations issued that are assumed or guaranteed by the United States, its agencies, or United States government-sponsored enterprises, the pension systems are prohibited by MCL Section 38.1137 from investing in more than 5.0 percent of the outstanding obligations of any one issuer or investing more than 5.0 percent of a system's assets in the obligations of any one issuer.

At September 30, 2016, there were no investments in any single issuer that accounted for more than 5.0 percent of the system's assets.

Pension trust fund investments represent 91.2 percent of the total investments of the primary government. Other large holders of investments were the State Lottery Fund (SLF), MESP, and the Michigan Natural Resources Trust Fund.

SLF investments, \$213.4 million, are all in the form of zero coupon U.S. Treasury bonds and State of Michigan Municipal bonds. These investments are held to provide funding for deferred prize awards.

Securities Lending Transactions

The State of Michigan, pursuant to a Securities Lending Authorization Agreement, has authorized State Street Bank and Trust Company ("State Street") to act as agent in lending the State's securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the State, certain securities of the State held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. The types of securities lent were equity, and fixed income, which includes government and corporate bonds and notes. State Street does 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 at least 100.0 percent of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to indemnify the State in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the State and the borrowers maintained the right to terminate securities lending transactions upon notice. 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, 2016, the investment pool had an average duration of 1.6 years and an average weighted final maturity of 1.6 years for U.S. Dollar (USD). 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, 2016, the State had no credit risk exposure to borrowers. The market value of collateral held and the market value (USD) of securities on loan for the client as of September 30, 2016, was \$4.3 billion and \$4.3 billion, respectively.

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

Debt Investments (In millions)				
Investment Type	Fair Value	Rating S & P	Fair Value	Rating Moody's
Securities Lending Collateral				
Short term	\$ 400.6	A-1	\$ 400.6	P-1
	878.4	Unrated	878.4	Unrated
Corporate	3,027.8	BB	3,027.8	Ba
Total	<u>\$ 4,306.8</u>		<u>\$ 4,306.8</u>	

Deposits and Investments – Discretely Presented Component Units

Deposits

At year-end, the carrying amount of discretely presented component unit deposits, excluding those classified as investments, was \$864.8 million. The deposits were reflected in the accounts of the banks at \$759.5 million. Of the bank balance, \$607.6 million was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Michigan
Notes to the Financial Statements

Investments

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

Each discretely presented component unit separately issues a publicly available financial report that includes its financial statements and notes to financial statements. GASB Statement No. 72 related disclosures for the investments of discretely presented component units are available within those reports and may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-1010

Restricted Assets

Restricted investments on the government-wide Statement of Net Position, totaling \$654.9 million, represent amounts that are pledged toward the payment of outstanding bonds and notes.

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

	Fair Value	Investment Maturities (In years)				N/A
		Less Than 1	1 To 5	6 To 10	More Than 10	
Time deposits	\$ 214.6	\$ 189.6	\$ 25.0	\$ -	\$ -	\$ -
Money market accounts	1,973.4	1,966.1	-	-	7.3	-
Commercial paper	77.3	77.3	-	-	-	-
Repurchase agreements	481.1	-	25.2	61.2	394.6	-
Government securities	713.6	320.8	287.9	61.0	44.0	-
Insured mortgage backed securities	841.9	92.6	152.7	59.6	537.0	-
Government-backed securities	218.0	10.9	134.4	37.8	34.9	-
Investment agreements	0.2	0.2	-	-	-	-
Corporate bonds and notes	307.1	18.0	140.3	134.3	14.5	-
Equities	261.8	124.1	9.7	-	40.2	87.7
Real estate	33.5	-	3.4	0.7	28.5	0.9
Venture capital & leveraged buyouts	15.0	-	-	-	15.0	-
Mutual bond/equity funds	1,766.5	141.4	338.9	155.5	356.0	774.8
Pooled investment funds	31.9	31.9	-	-	-	-
Other investments	664.9	4.9	97.5	13.5	186.3	362.7
Total Investments	\$ 7,600.9	\$ 2,977.9	\$ 1,214.9	\$ 523.6	\$ 1,658.5	\$ 1,226.0
Less Investments Reported as						
"Cash" on Statement of Net Position	\$ 1,047.0					
Total Investments	\$ 6,553.9					

As reported on the Statement of Net Position

Current investments	\$ 1,691.9
Noncurrent restricted investments	654.9
Noncurrent investments	4,207.2
Total Investments	\$ 6,553.9

NOTE 9 – CAPITAL ASSETS

Primary Government

Summary of Significant Accounting Policies

Methods used to value capital assets

Capital assets, which include property, plant, equipment, intangible items (e.g., mineral rights, land rights, and computer software) and infrastructure items (e.g., roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization policies

All land and non-depreciable land improvements are capitalized, regardless of cost. Equipment is capitalized when the cost of individual items exceeds \$5.0 thousand, computer software is capitalized when the cost exceeds \$5.0 million, and all other capital assets are capitalized when the cost of individual items or projects exceed \$100.0 thousand.

The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Items not capitalized and depreciated

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets are held for public exhibition, education, or research in furtherance of public service, rather than financial gain. These assets include works of art and historical treasures such as statues, monuments, historical documents, paintings, forts and lighthouses, rare library books, miscellaneous capitol-related artifacts and furnishings, and the like.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Agencies assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

<u>Asset</u>	<u>Years</u>
Buildings	5-50
Equipment	2-25
Infrastructure	3-40
Intangibles	6-12
Land Improvements	5-40

Modified approach for infrastructure

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

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

Michigan
Notes to the Financial Statements

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

	Beginning Balance	Additions	Deletions	Adjustments & Reclassifi- cations	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,515.4	\$ 17.4	\$ (2.5)	\$ 21.4	\$ 3,551.6
Land improvements and other assets	16.2	-	-	-	16.2
Land rights	67.3	0.9	-	-	68.2
Mineral rights	19.8	-	-	-	19.8
Construction in progress (buildings)	97.4	16.3	(47.7)	-	66.0
Construction in progress (infrastructure)	2,043.2	512.4	(360.2)	(36.2)	2,159.3
Infrastructure	13,917.5	312.5	(172.9)	5.6	14,062.7
Total capital assets, not being depreciated	19,676.7	859.5	(583.2)	(9.2)	19,943.7
Capital assets, being depreciated:					
Land improvements and other assets	236.1	27.2	-	-	263.2
Equipment and vehicles	812.9	165.7	(15.7)	5.9	968.8
Computer software (includes projects in progress)	886.7	205.2	-	-	1,091.9
Buildings	3,619.9	89.3	(12.7)	(0.6)	3,695.9
Infrastructure	1,251.1	33.2	(2.4)	-	1,281.9
Total capital assets, being depreciated	6,806.6	520.6	(30.8)	5.3	7,301.7
Less accumulated depreciation for:					
Land improvements and other assets	(85.5)	(8.4)	-	0.8	(93.1)
Equipment and vehicles	(642.0)	(53.7)	15.2	20.4	(660.1)
Computer software	(348.2)	(72.0)	-	12.8	(407.4)
Buildings	(1,828.5)	(111.3)	10.2	2.1	(1,927.5)
Infrastructure	(679.6)	(45.9)	2.4	(2.1)	(725.2)
Total accumulated depreciation	(3,583.7)	(291.4)	27.8	33.9	(3,813.4)
Total capital assets, being depreciated, net	3,222.9	229.3	(3.0)	39.2	3,488.3
Governmental activity capital assets, net	<u>\$ 22,899.6</u>	<u>\$ 1,088.8</u>	<u>\$ (586.3)</u>	<u>\$ 30.0</u>	<u>\$ 23,432.1</u>

The Judiciary has temporarily delayed a computer software project during fiscal year 2016. The temporary impairment pertained to intangibles. The Judiciary is undertaking a comprehensive evaluation of the project in order to adopt a strategy to build upon the work done to date that will provide a swifter delivery of value and new functionality to the courts. No impairment loss was reported as a temporary impairment to the historical cost of the project included in the above table.

	Beginning Balance	Additions	Deletions	Adjustments and Reclassifi- cations	Ending Balance
Business - Type Activities					
Capital assets, being depreciated:					
Computer Software	\$ 0.2	\$ -	\$ -	\$ -	\$ 0.2
Equipment	6.2	0.1	(0.1)	-	6.3
Total capital assets, being depreciated	6.4	0.1	(0.1)	-	6.5
Less accumulated depreciation for:					
Computer Software	(0.2)	-	-	-	(0.2)
Equipment	(4.7)	(0.4)	0.1	-	(5.0)
Total accumulated depreciation	(4.8)	(0.4)	0.1	-	(5.2)
Total capital assets, being depreciated, net	1.6	(0.3)	-	-	1.3
Business-type activity capital assets, net	<u>\$ 1.6</u>	<u>\$ (0.3)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.3</u>

Michigan
Notes to the Financial Statements

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

	<u>Amount</u>
Governmental Activities:	
General government	\$ 33.9
Education	0.2
Human Services	9.8
Public safety and corrections	56.2
Conservation, environment, recreation, and agriculture	14.9
Labor, commerce, and regulatory	2.0
Health services	41.2
Transportation	57.5
Depreciation on capital assets held by the State's internal service funds charged to the various functions based on their use of the assets	<u>75.6</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 291.4</u>
Business-type Activities:	
Enterprise	<u>\$ 0.4</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 0.4</u>

Discretely Presented Component Units

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

	<u>Amount</u>
State Universities and authorities:	
Land and other non-depreciable assets	\$ 271.0
Buildings, equipment, and other depreciable assets	6,491.0
Infrastructure	102.9
Construction in progress	<u>235.1</u>
Total	7,100.0
Less accumulated depreciation	<u>(2,739.5)</u>
Capital Assets, Net - Discretely Presented Component Units	<u>\$ 4,360.5</u>

NOTE 10 – PENSION BENEFITS

Defined Benefit Pension Plans

The component unit information required to be disclosed in this note is related to the State Employees' Retirement System (SERS) only. All other component units of the State participate in pension plans where the State is not an employer.

The defined benefit pension plans are administered through a trust and follow the disclosure requirements set forth in Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. This includes the Military Retirement System, which is now administered through a trust. This became effective January 1, 2016, in accordance with Executive Order 2015-13.

Michigan
Notes to the Financial Statements

PLAN DESCRIPTION

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

Name	Type of Plan	Participating Employers
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System (SERS)	Single employer	1
Public School Employees' Retirement System (PSERS)*	Cost sharing multi-employer	678
Judges' Retirement System (JRS)	Cost sharing multi-employer	65
Military Retirement System (MRS)	Single employer	1

*The State of Michigan is not an employer within PSERS, therefore, pension plan information is not disclosed in this note.

Each plan is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements, notes to financial statements, and required supplementary information for that plan. Those reports, except LRS, may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by visiting www.audgen.michigan.gov/wp-content/uploads/2016/07/LRSFY2015CAFR.pdf or by calling (517) 373-0575.

As mandated by legislation, all new State of Michigan employees (except Michigan State Police officers) hired on or after March 31, 1997, are members of the State of Michigan Defined Contribution Retirement Plan (Plan) as opposed to the LRS, SERS, and JRS defined benefit plans. Employees hired before that date were given the option of remaining in the defined benefit plan or transferring to the defined contribution plan. The decision is irrevocable and transfers were completed by September 30, 1998. This was a one-time opportunity. With the passage of the legislation permitting the transfer, the LRS, SERS, and JRS defined benefit plans became closed systems. Michigan State Police troopers and sergeants who become a member of SPRS on or after June 10, 2012, are part of the hybrid defined benefit and defined contribution plan. MRS is open to new National Guard members.

Basis of Accounting

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

Benefit Payments

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

Valuation of Plan Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net assets value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary. For fiscal year 2016, the contribution rates for SERS were 26.1 percent of the defined benefit employee wages and 22.8 percent of the defined contribution employee wages. The contribution rates for SPRS were 60.8 percent and 60.1 percent of the defined benefit employee wages for non-command and command officers, respectively, and 54.7 percent of the hybrid defined benefit and defined contribution employee wages. The annual required contribution was \$2.1 million for JRS, \$6.8 million for MRS, and \$8.1 million for LRS. The employer contributions to SERS, SPRS, JRS, MRS, and LRS for the fiscal year ending September 30, 2016, was \$787.4 million from the primary government and \$9.5 million from its component units (SERS only).

Net Pension Liability

The net pension liability for SERS, SPRS, JRS, and LRS, was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The net pension liability for MRS was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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Actuarial Valuations and Assumptions

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

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

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

	LRS	SPRS	SERS	JRS	MRS
Latest actuarial valuation date	9/30/2014	9/30/2014	9/30/2014	9/30/2014	9/30/2015
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar open	Level percent of payroll closed	Level dollar closed	Level dollar closed	Level dollar closed
Remaining amortization period	10 years	22 years	22 years	22 years	21 years
Asset valuation method	5-year smoothed Fair Value	5-year smoothed Fair Value	5-year smoothed Fair Value	5-year smoothed Fair Value	Fair value
Actuarial assumption:					
Investment rate of return	7.0%	8.0%	8.0%	8.0%	8.0%
Projected salary increases	4.0%	3.5 - 93.5%	3.5 - 12.5%	3.5%	3.5%
Includes inflation at	4.0%	3.5%	3.5%	3.5%	2.5%
Cost-of-living adjustments	4.0% annual compounded (non-compounded for legislators who first became members after 1/1/1995)	2.0% annual non-compounded max. annual increase \$500	3.0% annual non-compounded with max. annual increase \$300	Assumed 4.0% compounded for those eligible	3.5% for special duty retirants

Actuarial Assumptions Changes

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted for use in the annual pension valuations beginning with the September 30, 2014 valuations for SERS, SPRS, and JRS, and the September 30, 2015 valuation for MRS. For SERS, SPRS, MRS, and JRS, the RP-2000 Combined Healthy Mortality Table, which is used to measure the probabilities of each benefit payment being made after retirement, was adjusted for mortality improvements. For SPRS and JRS, the rates of retirement, which is used to measure the probability of eligible members retiring during the next year, increased for some of the members' ages within the table. For SERS, the rates of separation from active membership table, which is used to measure the probabilities of members remaining in employment, changed for members who were 30 years of age and older. For SPRS, the rates of pay increase table changed for members with more than two years of service.

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Notes to the Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Allocation for SERS, SPRS, and JRS*

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return**
Domestic Equity Pools	28.0 %	5.9 %
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate & Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
Total	100.0 %	

*For MRS, there were no assets as of September 30, 2015.

**Long-term Rate of Returns are net of administrative expenses and 2.1 percent inflation.

Asset Allocation for LRS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return***
Large Cap Equity	27.0 %	6.9 %
Small Cap Equity	13.0	7.0
International Developed Equity	11.0	6.9
International Small Cap Equity	5.0	8.3
Emerging Markets	9.0	11.6
Fixed Income	18.0	0.5
Hedge Fund	5.0	3.5
Public National Resources	10.0	7.6
Cash	2.0	(0.5)
Total	100.0 %	

***Rate of Return does not include 2.0 percent inflation.

Rate of Return

For the year ended September 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.0 percent, 1.9 percent, negative 1.9 percent, and negative 4.6 percent for SERS, SPRS, JRS, and LRS, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

For SERS, SPRS, and JRS, a discount rate of 8.0 percent was used to measure the total pension liability (7.0 percent for the Pension plus Plan related to SPRS only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0 percent (7.0 percent for the Pension plus Plan related to SPRS only). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Notes to the Financial Statements

For LRS, the single discount rate used to measure the total pension liability dropped to 4.6 percent, compared to the prior year's rate of 5.6 percent. This single discount rate was based on an expected rate of return on pension plan investments of 7.0 percent and a municipal bond rate of 3.7 percent (the municipal bond rate is based on an index of 20-year general obligation bonds with an average AA credit ratings, which is published by the Federal Reserve). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2028. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2028, and the municipal bond rate was applied to all benefit payments after 2028.

For MRS, as of the measurement date, no assets were held in a qualified trust for the payment of pension plan obligations. A single discount rate of 3.7 percent was used to measure the total pension liability as of September 30, 2015. This rate was based on a municipal bond rate closest to, but not later than, the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve. This discount rate was applied to all periods of future projected benefit payments to determine the present value of future benefits.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents SERS, SPRS, and JRS's net pension liability, calculated using a discount rate of 8.0 percent (7.0 percent for Pension Plus Plan related to SPRS only), as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 7.0%/6.0%	Current Discount 8.0%/7.0%	1% Increase 9.0%/8.0%
SERS Net Pension Liability/(Asset) \$	7,031,821.6	\$ 5,502,540.8	\$ 4,184,825.0
SPRS Net Pension Liability/(Asset)	807,835.0	610,205.7	443,989.8
JRS Net Pension Liability/(Asset)	18,667.9	304.1	(15,364.9)

The following presents LRS's net pension liability, calculated using a discount rate of 4.6 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 3.6%	Current Discount 4.6%	1% Increase 5.6%
LRS Net Pension Liability/(Asset) \$	146,342.0	\$ 114,089.8	\$ 87,599.7

The following presents MRS's net pension liability, calculated using a discount rate of 3.7 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate (in thousands):

	1% Decrease 2.7%	Current Discount 3.7%	1% Increase 4.7%
MRS Net Pension Liability/(Asset) \$	90,403.9	\$ 78,039.5	\$ 68,245.9

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Notes to the Financial Statements

Changes in the Net Pension Liability/Asset

The amounts included for the primary government in the table below are related to SERS, SPRS, MRS, and LRS. The component unit amounts are related to SERS only (in millions):

	Primary Government			Component Units		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balances at 9/30/2015 - restated	\$ 17,951.2	\$ 12,179.4	\$ 5,771.8	\$ 294.6	\$ 200.5	\$ 94.1
Changes for the year:						
Service Cost	99.3	-	99.3	1.5	-	1.5
Interest	1,375.6	-	1,375.6	22.7	-	22.7
Differences between expected/actual	29.9	-	29.9	1.0	-	1.0
Changes of Assumptions	27.2	-	27.2	-	-	-
Contributions - Employer	-	810.3	(810.3)	-	13.7	(13.7)
Contributions - Member	-	48.5	(48.5)	-	0.9	(0.9)
Net Investment Income	-	248.0	(248.0)	-	4.3	(4.3)
Benefit payments, including refunds of member contributions	(1,376.2)	(1,376.2)	-	(23.1)	(23.1)	-
Administrative and Other Expenses	-	(7.3)	7.3	-	(0.1)	0.1
Net changes	155.8	(276.8)	432.6	2.1	(4.4)	6.5
Balances at 9/30/2016	\$ 18,106.9	\$ 11,902.6	\$ 6,204.3	\$ 296.7	\$ 196.1	\$ 100.5

The amounts included in the table below are related to JRS (in millions):

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at 9/30/2015	\$ 257.5	\$ 271.3	\$ (13.8)
Changes for the year:			
Service Cost	2.4	-	2.4
Interest	19.8	-	19.8
Difference between expected and actual experience	0.9	-	0.9
Contributions - Employer	-	2.6	(2.6)
Contributions - Member	-	0.9	(0.9)
Net Investment Income	-	5.8	(5.8)
Benefit payments, including refunds of member contributions	(23.2)	(23.2)	-
Administrative and Other Expenses	-	(0.3)	0.3
Net changes	(0.1)	(14.2)	14.1
Balances at 9/30/2016	\$ 257.4	\$ 257.1	\$ 0.3

As of September 30, 2016, the State reported the entire amount of the net pension liability related to JRS because it is the only contributing entity.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the State recognized pension expense related to the primary government and its component units of \$667.9 million and \$12.2 million, respectively. The reported deferred outflows of resources and deferred inflows of resources related to pensions, including component units, are identified in Note 27.

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Notes to the Financial Statements

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (amounts in millions):

Year Ended September 30	Primary Government Pension Expense Amount	Component Unit Pension Expense Amount
2017	\$ (5.2)	\$ 0.4
2018	(24.8)	(0.5)
2019	(30.3)	(0.5)
2020	143.5	2.3

Currently, deferred outflows and inflows of resources related to pensions that will be recognized in pension expense do not extend beyond the four years identified in the table above.

Defined Contribution Pension Plans

State of Michigan Defined Contribution Retirement Plan

The Plan, now within the State of Michigan 401K Plans Fund, was established to provide benefits at retirement to employees of the State who were hired after March 31, 1997, Michigan State Police officers hired on or after June 10, 2012, Public School Reporting Units members hired after July 1, 2010, and to those members of the SERS (defined benefit), eligible members of the Education Achievement Authority (EAA), JRS, and LRS who elected to transfer to this Plan. The Plan is administered by the Department of Technology, Management and Budget. Public Act 264 of 2011 created the State of Michigan Personal Healthcare Fund for State employees hired after January 1, 2012, and those who elected to transfer to this plan.

The State is required to contribute 4.0 percent of annual covered payroll. The State is also required to match employee contributions up to 3.0 percent of annual covered payroll. The Plan provides for eligible public school reporting units and the Michigan State Police to make a mandatory contribution of 50.0 percent of participants' voluntary contributions up to 1.0 percent of compensation. The Plan also provides for the EAA to make a mandatory contribution of 100 percent of participants' voluntary contributions up to 7.5 percent of compensation. In addition, the Plan provides a Personal Healthcare Fund for State of Michigan employees hired on or after January 1, 2012, Michigan State Police officers hired on or after June 10, 2012, and Public School employees hired on or after September 4, 2012, with an employer match of up to 2.0 percent of compensation. State of Michigan employees hired prior to January 1, 2012, that elected to transfer to this plan received an employer match up to 2.0 percent of future compensation plus a monetized amount for existing years of service distributed on termination. Plan provisions and contribution requirements are established and may be amended by the Legislature. The reports may be obtained by visiting www.michigan.gov/ors or by calling (517) 322-5103.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in the State contributions and earnings on State contributions after completion of 48 months of credited service with the State. Nonvested contributions are forfeited upon termination of employment. Forfeitures are used to offset future State contributions and pay administrative expenses of the Plan. For the year ended September 30, 2016, the State recognized pension expense of \$163.5 million. For the year ended September 30, 2016, forfeitures reduced the State's pension expense by \$6.5 million.

Component Units

In addition to the PSERS, the State university component units participate in a defined contribution multiple-employer pension plan primarily administered by the Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) and also, in some cases, Fidelity Investments. The State university component units are required to contribute between 4.0 percent and 15.0 percent of annual covered payroll, as determined by each institution's employment agreements. The total contribution to the TIAA-CREF and Fidelity Investments for all State university component units was \$107.2 million for the year ending June 30, 2016.

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

Effective January 1, 2004, the State Bar of Michigan assumed responsibility for the retirement plans of State Bar employees who participated in the Plan. All monies held in the Plan on behalf of participating State Bar employees were subsequently transferred to the newly established State Bar 401(a) retirement plan and the 457(b) retirement plan. The State Bar of Michigan is required to make minimum contributions and may establish other benefit provisions for their retirement plans. The State Bar of Michigan's contribution to the new plans was \$0.3 million for the year ending September 30, 2016.

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

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefit Plans

PLAN DESCRIPTION

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

<u>Name</u>	<u>Type of Plan</u>	<u>Participating Employers</u>
Legislative Retirement System (LRS)	Single employer	1
State Police Retirement System (SPRS)	Single employer	1
State Employees' Retirement System (SERS)	Single employer	1
Public School Employees' Retirement System (PSERS)*	Cost sharing multi-employer	678
Judges' Retirement System (JRS)	Cost sharing multi-employer	65
Life Insurance	Single employer	1

*The State of Michigan is not an employer within PSERS, therefore, OPEB plan information is not disclosed in this note.

Each plan, except for Life Insurance, is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports, except LRS, may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111. The LRS report may be obtained by visiting:

www.audgen.michigan.gov/wp-content/uploads/2016/07/LRSFY2015CAFR.pdf or by calling (517) 373-0575.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSETS MATTERS

Basis of Accounting

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

Methods Used to Value Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net assets value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Description of Benefits

State statutes require that the State provide certain OPEB benefits to many of its retired employees. Health, dental, and vision benefits as well as life insurance coverage are provided to retirees. State employees hired on or after January 1, 2012, or those employees that elected the Personal Healthcare Fund, no longer receive health, medical, and dental benefits. These employees receive contributions to the Personal Healthcare Fund (as described in Note 10).

FUNDING POLICY

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

Plan members for SPRS are required to contribute 5.0 percent of the monthly premium amount for health coverage and 10.0 percent for dental and vision coverage.

Plan members for SERS are required to contribute 20.0 percent of the monthly premium for health, dental, and vision.

Plan members for JRS are required to contribute 5.0 percent of health care premiums. JRS plan members can also enroll in the vision and dental plans of which they are required to contribute 100 percent of the premium.

Plan members for LRS that are part of the defined benefit plan are not required to contribute and the members of the defined contribution plan are required to contribute 10.0 percent of the premiums.

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Notes to the Financial Statements

Life insurance is provided to retirees with the employer required to contribute 100 percent of the premiums.

Statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the system's actuary and are based upon level-dollar value funding or a level-percent-of-payroll principles so the contribution rates do not have to increase over time. The following are the required contribution amounts for the fiscal year ending September 30, 2016 (in millions): \$659.5, SERS; \$50.9, SPRS; \$10.5, LRS; \$76.8, Life Insurance; \$0.7, JRS.

For the fiscal year ended September 30, 2016, the State contributed the following amounts (in millions): \$686.7, SERS; \$47.3, SPRS; \$4.7, LRS; \$28.4, Life Insurance; \$0.2, JRS. Included in these amounts were (in millions): prefunding of \$89.7, SERS; \$11.1, SPRS and federal on-behalf payments of \$69.0, SERS; \$2.2, SPRS; \$0.2, LRS; \$0.1 JRS.

ANNUAL OPEB COST AND OTHER RELATED INFORMATION

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

	LRS	SPRS	SERS	Life Insurance*
Annual OPEB Cost and Net OPEB Obligation:				
Annual required contribution	\$ 10.5	\$ 50.9	\$ 659.5	\$ 76.8
Interest on net OPEB (asset) obligation	1.4	12.2	176.0	12.9
Adjustment to annual required contribution	(2.2)	(11.2)	(161.2)	(15.7)
Annual OPEB cost	9.7	51.9	674.3	73.9
Contributions made	4.7	47.3	686.7	28.4
Prior period adjustment	(0.3)	-	-	-
Change in net OPEB (asset) obligation	4.7	4.5	(12.4)	45.6
Net OPEB (asset) obligation at beginning of fiscal year	34.6	153.0	2,199.9	322.3
Net OPEB (asset) obligation at end of fiscal year	\$ 39.2	\$ 157.5	\$ 2,187.5 **	\$ 367.8

*For Life Insurance, the information provided is based on the most recent biennial actuarial valuation.

**For SERS, \$2.2 billion related to governmental activities and \$14.9 million related to business-type activities.

Actuarial Valuations and Assumptions

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

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

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

Because the State now prefunds post-employment health care benefits for SPRS and SERS, the actuarial assumption for investment rate of return for the SPRS and SERS OPEB plans was increased from 4.0 percent for the September 30, 2011, actuarial valuation to 8.0 percent for the September 30, 2012, actuarial valuation. The actuarial assumption was changed to reflect the State's projected long-term investment rate of return now that the benefits are prefunded.

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Notes to the Financial Statements

	<u>LRS</u>	<u>SPRS</u>	<u>SERS</u>	<u>Life Insurance</u>
Latest actuarial valuation date	9/30/2015	9/30/2015	9/30/2015	9/30/2015
Actuarial cost method	Projected Unit Credit	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar closed	Level percent of payroll closed	Level percent of payroll closed	Level percent of payroll closed
Remaining amortization period	25 years	21 years	21 years	22 years
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value
Actuarial assumption:				
Investment rate of return	4.0%	8.0%	8.0%	4.0%
Includes inflation at	4.0%	3.5%	3.5%	3.5%
Healthcare cost trend rate	8.8% in 2016 grading to 4.0% in 2025	9.0% Year 1 graded to 3.5% Year 10	9.0% Year 1 graded to 3.5% Year 10	N/A

THREE YEAR HISTORICAL TREND INFORMATION

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
LRS	9/30/15	\$ 21.8	\$ 174.6	\$ 152.7	12.5 %	\$ 1.7	8,982.4 %
	9/30/14	23.6	158.6	134.9	14.9	2.5	5,403.2
	9/30/13	22.8	153.7	130.9	14.8	3.3	3,966.7
SPRS	9/30/15	94.8	675.6	580.8	14.0	112.5	518.0
	9/30/14	77.7	637.4	559.7	12.2	112.5	497.7
	9/30/13	52.2	603.0	550.7	8.7	110.2	499.6
SERS	9/30/15	1,302.1	8,998.7	7,696.6	14.5	3,028.6	254.1
	9/30/14	1,058.0	8,749.0	7,691.0	12.1	2,857.3	269.2
	9/30/13	663.5	8,199.2	7,535.8	8.1	2,881.1	261.6
Life Insurance*	9/30/15	-	1,111.1	1,111.1	-	3,148.7	35.3
	9/30/13	-	1,056.9	1,056.9	-	2,998.4	35.2
	9/30/11	-	1,012.8	1,012.8	-	3,156.2	32.1

*For Life Insurance, the information provided is based on the most recent biennial actuarial valuation.

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Notes to the Financial Statements

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

	Year Ended September 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation (Asset)
LRS	2016	\$ 9.7	49.0 %	\$ 39.2
	2015	8.9	52.4	34.6
	2014	9.0	49.9	30.3
SPRS	2016	51.9	91.3	157.5
	2015	49.0	97.4	153.0
	2014	48.0	100.8	151.7
SERS	2016	674.3	101.8	2,187.5
	2015	664.9	107.3	2,199.9
	2014	644.7	117.3	2,248.6
Life Insurance	2016	73.9	38.4	367.8
	2015	70.9	38.3	322.3
	2014	68.6	37.3	278.5

NOTE 12 – LEASES

Accounting Policy

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

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

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

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

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

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

During fiscal years 2008, 2011, and 2015, the State entered into building lease agreements with the Michigan Strategic Fund (MSF), a discretely presented component unit. The leases were classified as capital leases and are included in the capital lease disclosures below.

Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$50.4 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$50.8 million, \$42.7 million, and \$18.1 million, respectively, during the fiscal year. Included in these amounts were payments to MSF for principal, interest, and executory costs totaling \$9.6 million, \$8.5 million, and \$0.0, respectively.

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Notes to the Financial Statements

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

Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2017	\$ 10.4	\$ 48.5	\$ 44.1	\$ 17.6	\$ 110.1
2018	8.4	46.7	43.7	16.5	106.9
2019	7.2	46.2	40.3	15.4	101.9
2020	3.7	44.6	36.1	14.1	94.8
2021	1.7	42.9	32.9	12.1	88.0
2022-2026	0.6	152.3	122.6	43.7	318.6
2027-2031	0.1	87.3	57.7	23.0	168.0
2032-2036	0.1	19.2	28.4	7.8	55.4
2037-2041	0.1	18.8	19.8	3.9	42.5
Thereafter	0.4	20.5	13.1	-	33.6
Total	<u>\$ 32.8</u>	<u>\$ 527.0</u>	<u>\$ 438.7</u>	<u>\$ 154.1</u>	<u>\$ 1,119.8</u>

The above capital leases relate to governmental activities which include the General Fund, other governmental funds, and the internal service funds. A liability of \$527.0 million has been recorded in the government-wide financial statements for the capital lease principal. Included in this liability are the capital leases between the State and MSF totaling \$212.2 million.

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

Buildings	\$ 432.5
Equipment	236.2
Total	<u>668.7</u>
Accumulated Depreciation	<u>(258.4)</u>
Net Buildings and Equipment	<u>\$ 410.3</u>

Included in the table above is the historical cost and accumulated depreciation for the capital leases between the State and MSF of \$208.3 million and \$79.1 million, respectively.

Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled \$0.5 million during the fiscal year. There were no capital lease obligations.

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

Year Ended September 30	Operating Leases
2017	\$ 0.3
2018	0.5
2019	0.4
2020	0.3
2021	0.1
2022-2026	-
Total	<u>\$ 1.6</u>

Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$26.8 million. Total capital lease obligations were \$24.4 million, \$10.9 million, and \$0.0 for principal, interest, and executory costs, respectively, during the fiscal year.

NOTE 13 – BONDS AND NOTES PAYABLE – PRIMARY GOVERNMENT

General Information

General Obligation Bonds and Notes

Article 9, Section 15, of the State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General obligation notes to provide temporary financing for such loans are recorded as liabilities in the School Bond Loan Fund, a subfund of the General Fund. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues. General obligation bonds are backed by the full faith and credit of the State.

The State Constitution provides that the Legislature may also authorize the issuance of general obligation short-term notes, the principal amount of which may not exceed 15 percent of undedicated revenues received in the preceding year. The State Constitution also provides that such notes must be repaid within the fiscal year of the borrowing. In fiscal year 2016, the State did not issue any general obligation short-term notes.

Revenue Dedicated Bonds and Notes

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

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

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Commercial Paper Notes	\$ 32.4	\$ 135.3	\$ 96.5	\$ 71.2

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

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Notes to the Financial Statements

Bonds Issued and Outstanding

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

	Amounts Issued	Outstanding September 30	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
General Obligation Bonded Debt					
General Obligation Debt:					
Series 2002 (Refunding)	\$ 300.7	\$ 19.5	2004	2017	4.41 %
Series 2008 A (Refunding)(1)	200.8	122.8	2011	2019	4.94
Series 2008 B (Refunding)(1)(3)	19.4	3.8	2011	2019	4.33
Series 2010 A (Refunding)	46.6	31.1	2013	2021	4.00
Series 2011 A (Refunding) (1)(3)	44.0	44.0	2022	2026	3.83
Series 2011 B (Refunding) (1)(3)	65.4	29.5	2014	2021	2.56
Series 2012 (Refunding) (1)(3)	92.3	92.3	2017	2021	4.60
Series 2014 A (3)	65.1	65.1	2024	2029	5.00
Series 2014 B (3)	20.2	20.2	2027	2027	3.59
Series 2015 A (Refunding)(3)	129.1	129.1	2017	2029	5.02
Series 2016 A (3)	82.2	82.2	2022	2025	5.00
Series 2016 B (Refunding)	60.0	60.0	2022	2026	4.80
Recreation and Environmental Protection:					
Series 2003 (3)	10.0	6.0	2054	2054	-
School Loan Bonds (2):					
Series 2009 A (Refunding)	204.1	190.5	2016	2021	6.53
Series 2009 B (Refunding) (5)	193.7	36.0	2010	2030	5.58
Series 2010 B (Refunding)	83.8	83.8	2017	2021	3.67
Series 2011 A	150.0	95.2	2014	2023	3.72
Series 2011 B	30.1	30.1	2023	2023	3.70
Series 2012 A (Refunding)	225.0	154.2	2013	2026	2.39
Series 2013 A	200.0	200.0	2024	2033	3.30
Series 2016 A (Refunding)	129.1	129.1	2017	2023	1.35
Total General Obligation Bonded Debt	2,351.5	1,624.5			

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Notes to the Financial Statements

	Amounts Issued	Outstanding September 30	Fiscal Year Maturities		Average Interest Rate Percentage
			First Year	Last Year	
Revenue Dedicated Bonded Debt					
<u>State Park Related:</u>					
2002 - Gross Revenue Bonds	15.5	7.1	2004	2023	3.58 %
Total Revenue Dedicated Bonded Debt - State Park Related	15.5	7.1			
<u>Transportation Related:</u>					
Tax Dedicated Bonds:					
Comprehensive Transportation Fund Bonds:					
Series 2005 (Refunding)	62.2	44.4	2009	2023	5.15
Series 2009 (Refunding)	42.3	23.2	2012	2019	4.11
Series 2011 (Refunding)	18.5	12.5	2013	2022	4.35
Series 2013 (Refunding)	10.1	5.5	2014	2023	4.67
Series 2015 (Refunding)	29.4	29.4	2017	2031	4.79
State Trunkline Fund Bonds:					
Series 1998 (Series A Refunding)	377.9	94.4	2006	2019	5.03
Series 2004 (Refunding)	103.5	64.8	2006	2022	4.13
Series 2005 (Refunding)	223.0	126.0	2010	2022	5.10
Series 2006	244.5	17.6	2008	2017	4.74
Series 2009 (Revenue and Refunding)	146.2	146.2	2018	2027	4.76
Series 2011	91.0	84.3	2014	2037	4.58
Series 2012 (Refunding)	49.3	33.7	2014	2022	4.78
Series 2014 (Refunding)	265.1	225.4	2016	2022	4.36
Series 2015 (Refunding)	54.1	54.1	2023	2023	3.50
Grant Anticipation Bonds:					
Series 2007	485.1	9.5	2009	2017	4.87
Series 2016 (Refunding)	607.1	607.1	2018	2027	4.90
Total Revenue Dedicated Bonded Debt - Transportation Related	2,809.2	1,578.1			
<u>State Building Authority:</u>					
2006 Series I A Capital Appreciation	395.3	6.4	2014	2017	4.80
2007 Series I Multi-modal (4)	96.5	32.5	2009	2032	0.86
2008 Series I (Revenue and Refunding)	192.3	41.3	2010	2039	6.08
2009 Series I (Refunding)	222.1	150.7	2010	2027	4.88
2009 Series II	113.5	97.6	2011	2034	4.99
2011 Series I A (Revenue and Refunding)	409.6	379.5	2012	2046	5.16
2011 Series I B	12.2	10.5	2013	2032	5.69
2011 Series II A (Revenue and Refunding)	180.7	175.8	2012	2042	5.23
2011 Series II B (Refunding) (4)	45.8	45.3	2044	2044	0.86
2013 Series I A (Revenue and Refunding)	531.3	446.5	2015	2048	4.76
2015 Series I (Revenue and Refunding)	989.3	980.6	2015	2050	3.86
2016 Series I (Revenue and Refunding)	665.2	665.2	2018	2052	3.06
Total State Building Authority Bonded Debt	3,853.7	3,031.7			
Total Revenue Dedicated Bonded Debt	6,678.4	4,616.9			
Total General Obligation and Revenue Dedicated Bonded Debt	<u>\$ 9,029.9</u>	<u>\$ 6,241.4</u>			

- (1) MCL Section 324.95102 authorized the issuance of bonds totaling \$675.0 million. As of September 30, 2016, \$594.6 million of such bond proceeds had been received, leaving remaining authorization of \$80.4 million. The sum of amounts issued in the preceding table differs by the amount of bonds refunded or redeemed, premiums and discounts, and other issuance costs.
- (2) The Multi-Modal School Loan Bond Series bear interest at a commercial paper rate and are remarketed at each maturity. For the future debt service requirements, interest is estimated at the interest rate in effect at year-end. There were no Multi-Modal School Loan Bonds outstanding at September 30.

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Notes to the Financial Statements

- (3) In November 2002, voters approved a ballot proposal in which the State would issue \$1.0 billion in general obligation bonds to provide capital, which is then loaned to local units of government for water quality improvement projects. As of September 30, 2016, \$413.0 million of such bond proceeds had been recognized as received, leaving remaining authorization of \$587.0 million. Included in the amount recognized as received is \$100.0 million in bonds issued to a discretely presented component unit, Michigan Finance Authority (MFA). Although no cash traded hands, MFA (the registered owner of the bonds) is holding the bond document as collateral and issuing their own revenue bonds to generate the capital. This transaction allows the State's General Fund to defer principal and interest costs until future years when the bond is repurchased/redeemed. MFA will fund the principal and interest costs of the revenue bonds until such time that they request the State to honor the general obligation bond document.

On December 18, 2003, the State issued \$100.0 million in bonds (\$10.0 million relating to Strategic Water Quality and \$90.0 million relating to the previously existing State Water Quality Revolving Fund). The \$10.0 million bond relating to Strategic Water Quality includes a repurchase provision that requires the State to repurchase all or any portion of this bond upon 10 days prior written notice from the registered owner, MFA. The State anticipates at this time that if the bond repurchase was acted on, the State would issue long-term debt to finance the repurchase. This bond is being used as collateral by MFA for the Strategic Water Quality bonds being issued by MFA to local governments. The \$10.0 million bond was reduced to a net obligation of \$6.0 million when \$4.0 million of the proceeds from General Obligation Recreation and Environmental Protection Series 2006 B (which was fully refunded in fiscal year 2009) were used to refund a portion of the original obligation. For these reasons, the State has recognized the \$6.0 million bond related to Strategic Water Quality as a liability in the entity-wide statements. The \$90.0 million "bond" document issued for the State Water Quality Revolving Fund does not contain the 10-day repurchase provision that the \$6.0 million bond does. Nor is the \$90.0 million "bond" document being used as collateral by MFA. For these reasons, the State has not recognized a liability for the \$90.0 million "bond" document related to the existing State Water Quality Revolving Fund.

- (4) SBA Multi-Modal and variable rate bonds bear interest at a remarketed weekly rate. Estimated interest was computed using the weekly rates as of September 30, 2016.
- (5) This issuance was acquired as an investment by the State Lottery Fund, an enterprise fund, through a public market offering and is reported as part of investments in the fund's statement of net position.

Capital Appreciation Bonds

Capital appreciation and convertible capital appreciation bonds are recorded in the Bonds Issued and Outstanding table and the Changes in Bonds and Notes Payable table at their accreted year-end book value. The following table summarizes capital appreciation bonds (in millions):

	Accreted Book Value	Ultimate Maturity Value	Fiscal Year Maturities	
			First Year	Last Year
General Obligation Bonds:				
School Loan Bond - Series 2009 B	\$ 36.0	\$ 55.8	2010	2030
Revenue Dedicated - State Building Authority:				
2006 Series I A	6.4	6.5	2014	2017

Refundings and Defeasances

The State has defeased certain bonds through advance refundings by placing the proceeds of new bonds (i.e., the "refunding" bonds in the table of bonds issued and outstanding) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The State has defeased certain bonds through current refundings in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded.

The State has defeased certain bonds by placing cash with an escrow agent in a trust to be used for future payment on the debt.

The State has defeased certain bonds through crossover refundings in which the proceeds of the refunding debt are used to pay interest on the refunding bonds until a crossover date.

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Notes to the Financial Statements

General Obligation

During the year, the State issued, as an advanced refunding, fixed rate General Obligation School Loan Refunding Bonds Series 2016 A in the amount of \$129.1 million, maturing in fiscal years 2017 to 2023. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$128.6 million was deposited with an escrow agent to refund General Obligation School Loan Refunding Bonds Series 2008 A. As a result of this refunding, the State's debt service decreased by \$7.8 million over the next seven years. The State achieved an economic gain of \$7.3 million through this refunding. The State also issued, as an advanced refunding, fixed rate General Obligation Environmental Program Refunding Bonds Series 2016 B in the amount of \$60.0 million, maturing in fiscal years 2022 to 2026. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$73.4 million was deposited with an escrow agent to refund General Obligation Environmental Program and Refunding Bonds Series 2009 A. As a result of this refunding, the State's debt service decreased by \$10.7 million over the next 10 years. The State achieved an economic gain of \$9.9 million through this refunding.

Revenue Dedicated

During the year, the State issued, as a current refunding, fixed rate State Trunkline Fund Refunding Bonds Series 2015 in the amount of \$54.1 million, maturing in fiscal year 2023. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$66.4 million was deposited with an escrow agent to refund State Trunkline Fund Refunding Bonds Series 2005. As a result of this refunding, the State's debt service decreased by \$16.2 million over the next eight years. The State achieved an economic gain of \$13.2 million through this refunding. The State also issued, as advanced and advanced crossover refundings, fixed rate Grant Anticipation Refunding Bonds Series 2016 in the amount of \$607.1 million, maturing in fiscal years 2018 to 2027. The bonds were issued for the purpose of refunding certain maturities. From the debt proceeds, \$445.7 million was deposited with an escrow agent to refund State of Michigan Grant Anticipation Bonds Series 2007, and \$302.1 million was deposited with an escrow agent to refund State of Michigan Grant Anticipation Bonds Series 2009 B and to pay a portion of interest on the refunding bond. As a result of these refundings, the State's debt service decreased by \$159.2 million over 12 years. The State achieved an economic gain of \$136.2 million.

During the year, SBA issued fixed rate Revenue and Refunding Bonds 2016 Series I in the amount of \$665.2 million, maturing in fiscal years 2018 to 2052. From the proceeds, \$660.0 million was deposited with an escrow agent to refund 2006 Revenue and Refunding Bonds Series IA and 2008 Revenue and Revenue Refunding Bonds Series I; \$96.5 was used to refund commercial paper notes; and \$12.9 million was deposited in the Acquisition Fund for costs of 2016 Facilities. As a result of these refundings, SBA's debt service decreased by \$186.9 million over the next 23 years. The refundings resulted in an economic gain of \$152.8 million.

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

	Amounts Outstanding
Recreation and Environmental Protection:	
Series 2009 A	\$ 64.1
Total Recreation and Environmental Protection	<u>\$ 64.1</u>
School Loan Bonds:	
Series 2008 A	\$ 116.0
Total School Loan Bonds	<u>\$ 116.0</u>
State Trunkline Fund Bonds:	
Series 2006	\$ 102.0
Series 2007	415.8
Series 2009 B	281.9
Total State Trunkline Fund Bonds	<u>\$ 799.7</u>
State Building Authority:	
2006 Series I A Serial and Capital Appreciation	\$ 929.1
2008 Series I (Revenue and Refunding)	140.0
Total State Building Authority	<u>\$ 1,069.1</u>

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Notes to the Financial Statements

Debt Service Requirements

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

Fiscal Years Ending	General Obligation		State Park and Transportation Related		State Building Authority		Total Principal And Interest
	Principal	Fixed Interest	Principal	Fixed Interest	Principal	Interest	
2017	\$ 190.5	\$ 64.8	\$ 149.4	\$ 87.7	\$ 87.1	\$ 133.2	\$ 712.7
2018	170.7	56.5	152.0	78.1	95.8	140.1	693.1
2019	174.7	48.5	159.9	60.7	82.0	135.8	661.6
2020	144.2	39.8	162.7	52.4	80.6	131.8	611.5
2021	150.9	33.3	140.4	44.8	84.6	127.7	581.8
2022-2026	565.0	95.0	621.9	125.7	477.2	570.2	2,455.0
2027-2031	196.5	25.3	165.5	15.8	656.1	431.0	1,490.1
2032-2036	45.8	2.6	27.1	5.0	654.9	262.2	997.5
2037-2041	-	-	6.3	0.2	467.6	136.6	610.6
2042-2046	-	-	-	-	224.3	58.6	283.0
2047-2051	-	-	-	-	115.7	14.3	130.0
2052-2056	6.0	-	-	-	5.9	0.1	12.0
Total	<u>\$ 1,644.3</u>	<u>\$ 365.8</u>	<u>\$ 1,585.2</u>	<u>\$ 470.2</u>	<u>\$ 3,031.7</u>	<u>\$ 2,141.7</u>	<u>\$ 9,239.0</u>

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

Changes in Bonds and Notes Payable

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

	Beginning Balance	Additions	Reductions	Accretion	Ending Balance	Amounts Due Within One Year	Due Thereafter
Governmental Activities							
Bonds Payable:							
General obligation debt	\$ 1,734.2	\$ 271.3	\$ (383.7)	\$ 2.8	\$ 1,624.5	\$ 190.5	\$ 1,434.0
Revenue bonds	1,829.0	661.2	(905.0)	-	1,585.2	149.4	1,435.8
State Building Authority	3,107.0	665.2	(753.6)	13.1	3,031.7	87.1	2,944.7
Unamortized Discounts:							
General obligation debt	(1.4)	-	0.3	-	(1.0)	-	(1.0)
Revenue dedicated debt	(1.3)	-	1.3	-	-	-	-
State Building Authority	(0.8)	(2.8)	0.2	-	(3.3)	-	(3.3)
Unamortized Premiums:							
General obligation debt	57.6	32.0	(12.8)	-	76.9	-	76.9
Revenue dedicated debt	88.3	153.7	(28.7)	-	213.3	-	213.3
State Building Authority	166.1	108.5	(14.0)	-	260.6	-	260.6
Total bonds and notes payable	<u>\$ 6,978.9</u>	<u>\$ 1,889.0</u>	<u>\$ (2,095.9)</u>	<u>\$ 15.9</u>	<u>\$ 6,787.8</u>	<u>\$ 427.0</u>	<u>\$ 6,360.8</u>

Plus State Building Authority commercial paper notes reported as
"Current Liabilities: Bonds and Notes Payable" on the Statement
of Net Position

As reported on the Statement of Net Position

71.2	71.2	-
<u>\$ 6,858.9</u>	<u>\$ 498.1</u>	<u>\$ 6,360.8</u>

Michigan
Notes to the Financial Statements

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

Bonds and Notes Payable

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

Bonds Payable

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

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

<u>Fiscal Years Ending In</u>	<u>Principal</u>	<u>Fixed Interest</u>	<u>Estimated Interest</u>	<u>Total</u>
2017	\$ 946.4	\$ 574.7	\$ 14.7	\$ 1,535.8
2018	789.4	549.3	13.8	1,352.5
2019	860.0	512.2	13.7	1,386.0
2020	836.8	475.1	13.6	1,325.4
2021	874.2	435.8	13.5	1,323.5
Total Five Years	4,306.8	2,547.1	69.3	6,923.2
2022-2026	2,901.7	1,646.0	65.1	4,612.7
2027-2031	2,153.6	1,072.8	59.2	3,285.6
2032-2036	1,823.6	598.7	52.7	2,475.0
2037-2041	935.0	273.4	45.4	1,253.7
2042-2046	1,294.1	94.3	38.1	1,426.5
2047-2051	587.7	9.7	24.8	622.2
Thereafter	5,606.3	-	2.5	5,608.8
2022 - Thereafter:	15,301.9	3,694.9	287.7	19,284.5
Total	19,608.7	\$ 6,241.9	\$ 357.0	\$ 26,207.6
Unamortized discount	(18.8)			
Unamortized premium	561.5			
Off market borrowings	10.8			
Unpaid accretion for capital appreciation bonds	(5,899.2)			
Total Principal	<u>\$ 14,262.9</u>			

Included in the table above is \$1.9 billion of demand bonds comprised of \$1.0 billion issued by MSHDA, \$703.5 million issued by the Michigan Finance Authority (MFA), and \$139.7 million issued by the State universities. Defeased bonds outstanding of MFA and MSHDA are not reflected in the table above.

Notes Payable

As of September 30, 2016, MFA has short-term notes outstanding of \$548.5 million and long-term notes outstanding of \$438.6 million.

As of December 31, 2015, VMF has long-term notes outstanding of \$309.7 million.

State universities have short-term notes outstanding of \$1.1 million and long-term notes outstanding of \$34.2 million as of June 30, 2016.

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.

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Notes to the Financial Statements

MFA issues limited obligations bonds to finance loans to private or nonpublic, nonprofit institutions of higher education, qualified public or private educational facilities and healthcare providers for capital improvements. As of September 30, 2016, MFA had bonds outstanding of \$9.4 billion. Of this amount, \$1.5 billion of the bonds have been defeased in substance, leaving a remaining undeleased balance of \$8.0 billion.

The Michigan Strategic Fund (MSF) issues taxable and tax-exempt private activity bonds, formerly known as industrial development revenue bonds, which are not recorded as liabilities. The total amount of private activity bonds issued by MSF and its predecessor entity for the period January 1, 1979, through September 30, 2016, was \$10.3 billion. The amount of tax-exempt bonds issued during fiscal year 2016 was \$39.4 million. In fiscal year 2016, there were no taxable bonds issued by MSF under the Taxable Bond Program. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

MSHDA issues limited obligation bonds to finance multi-family housing projects. At June 30, 2016, limited obligation bonds had been issued totaling \$877.4 million, of which 63 issues totaling \$636.7 million had been retired. The aggregated principal of all MSHDA outstanding debt may not exceed \$4.2 billion.

NOTE 15 – OTHER LONG-TERM OBLIGATIONS

Primary Government

Other Long-Term Obligations

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

Capital Leases

This liability is described in more detail in Note 12.

Compensated Absences

This liability is described in more detail in Note 1.

Workers' Compensation

The gross amount of workers' compensation liability, \$92.1 million at September 30, 2016, has been recorded at its discounted present value of \$61.9 million, using a discount rate of approximately 8 percent. The present value of the current portion of this liability is \$13.8 million. In fiscal year 2016, State agencies paid reimbursement for actual workers' compensation claims and administrative fees totaling \$23.1 million.

Net Pension Liability

This liability is described in more detail in Note 10.

Net Other Postemployment Benefits (OPEB) Obligation

This liability is described in more detail in Note 11.

Pollution Remediation

This liability is measured in accordance with the obligating event criteria defined in Governmental Accounting Standards Boards (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The State's pollution remediation obligation at September 30, 2016, is \$158.1 million (\$17.0 million of which is the current portion). This estimate is based on professional judgment, experience, and historical cost data. Recoveries from other responsible parties, which would reduce the State's remediation liability, are not anticipated. Remediation obligation estimates may change over time due to changes in technology, prices, and regulations.

Superfund sites account for approximately \$125.2 million of this total. The State has numerous instances of hazardous waste contamination that qualify as Superfund sites. Superfund is the federal government's program to clean up these hazardous waste sites. Under this program, the State is required to pay or ensure payment of 10 percent of the cost of remediation action and 100 percent of the cost of operations and maintenance.

Other pollution obligations include funds committed for remediation activities for publicly-funded response activities and state-liable sites. Not included in the liability is approximately \$26.9 million for state-owned sites where a legal obligation exists but the GASB Statement No. 49 criteria for accruing a liability has not been met.

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Notes to the Financial Statements

Financed Infrastructure Projects

This liability represents contracts entered into by the Department of Transportation for the design, building, and financing of highway lighting projects. The liability of \$37.9 million at September 30, 2016, represents the amount of work completed at year-end.

Pension Supplement

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

Other Claims & Judgments

The governmental activities estimated liability for other claims and litigation losses, \$407.7 million at September 30, 2016, includes amounts for litigation, such as damages in tort cases and refund claims in cases involving State taxes, transportation claims, natural resources and environmental quality claims, and other claims, in which it is considered probable that costs will be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. The allowance also includes projections for highway related negligence cases based upon historical loss ratios. The State continues to vigorously contest all of these claims and the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses is not considered reasonably measurable.

The liability for other claims and judgments also includes \$142.7 million for the expected sale and redemption or nullification of Venture Michigan Fund tax vouchers. This liability is further described in Note 24.

The liability recorded for other claims and judgments within business-type activities includes overpayments by employers to the Michigan Unemployment Compensation Funds totaling \$46.4 million.

Changes in Other Long-Term Obligations

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

	Beginning Balance**	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Other Long-term Obligations:						
Capital lease obligations:						
Component units	\$ 180.8	\$ -	\$ 9.6	\$ 171.2	\$ 10.6	\$ 160.7
Others	247.3	149.9	41.4	355.7	37.9	317.8
Compensated absences	415.2	322.5	328.9	408.8	216.2	192.6
Workers' compensation	69.4	8.0	15.4	61.9	13.8	48.1
Net pension liability	5,736.0	428.7	-	6,164.7	-	6,164.7
Net OPEB obligations	2,693.9	43.2	-	2,737.1	-	2,737.1
Pollution remediation	158.3	13.9	14.1	158.1	17.0	141.1
Financed infrastructure projects	-	37.9	-	37.9	-	37.9
Pension supplement*	4.5	-	4.5	-	-	-
Other claims and judgments	426.4	195.5	214.3	407.7	111.5	296.1
Total Governmental Activities	<u>\$ 9,931.8</u>	<u>\$ 1,199.4</u>	<u>\$ 628.1</u>	<u>\$ 10,503.1</u>	<u>\$ 407.0</u>	<u>\$ 10,096.1</u>
Business-type Activities						
Other Long-term Obligations:						
Lottery prize awards*	\$ 201.7	\$ 10.6	\$ 24.1	\$ 188.3	\$ 16.6	\$ 171.7
Compensated absences	2.8	1.7	1.8	2.7	1.5	1.2
Net pension liability	37.7	2.3	-	40.0	-	40.0
Net OPEB obligations	15.7	-	0.8	14.9	-	14.9
Pension supplement*	0.1	-	0.1	-	-	-
Other claims and judgments	60.0	60.3	73.9	46.4	-	46.4
Total Business-type Activities	<u>\$ 318.0</u>	<u>\$ 74.9</u>	<u>\$ 100.6</u>	<u>\$ 292.4</u>	<u>\$ 18.2</u>	<u>\$ 274.2</u>

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

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

Michigan Notes to the Financial Statements

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

Discretely Presented Component Units

The net pension liability totaled \$668.5 million for component units, which includes \$100.5 million related to authorities participating in the State Employees' Retirement System, \$548.6 million related to State universities participating in the Public Schools Employees' Retirement System, and the remaining amount in other non-State of Michigan related retirement systems.

Michigan Education Trust

Michigan Education Trust (MET) offers contracts, which for actuarially determined amounts, provide future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions of higher education. The tuition payments are made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur. The statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound. Liabilities have been recorded on the Statement of Net Position 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, 2016, shows the actuarial present value of future tuition obligations to be \$92.6 million, as compared to the actuarially determined market value of assets available of \$127.1 million. The actuarial assumptions used include: a projected tuition increase rate of 7.1 percent for two years; and a discount rate of 1.4 percent.

The actuarial report on the status of MET Plan D, as of September 30, 2016, shows the actuarial present value of future tuition obligations to be \$875.5 million, as compared to the actuarially determined market value of assets available of \$934.4 million. The actuarial assumptions used include: a projected tuition increase rate of 7.1 percent for two years; and a discount rate of 6.0 percent.

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

NOTE 16 – INCOME TAX CREDITS AND REFUNDS

Income Tax Credits

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

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

Michigan
Notes to the Financial Statements

The following table summarizes the various credits, reported on the "Tax credits" line as an expense in the government-wide financial statements and as an expenditure in the fund financial statements at September 30 (in millions):

Property tax credits:	
General homestead	\$ 269.2
Senior citizens	192.3
Blind and disabled	54.0
Farmland preservation	44.8
Veterans	<u>0.4</u>
Subtotal - property tax credits	560.7
Earned income tax credit	111.5
Historic preservation credit	<u>0.2</u>
Total tax credits	<u>\$ 672.4</u>

Income Tax Refunds Payable

The \$892.0 million reported as a liability on the "Income tax refunds payable" line in the government-wide and fund financial statements includes: projected refund estimates for overwithholding and tax credits reported as revenue reductions, actual refunds made in October and November, and accruals for known income tax litigation losses.

NOTE 17 – DEFERRED COMPENSATION PLANS

The State participates in two deferred compensation plans that allow employees to defer a portion of their salary until future years. Executive Order 1999-7 transferred administrative oversight of the plans, labeled 457 and 401k after sections of the Internal Revenue Code, to the Department of Technology, Management and Budget. Day-to-day operations of the plans have been contracted to a third-party; however, the State Treasurer oversees investment options. Prior to fiscal year 2016, the 457 and the 401k deferred compensation plans were combined for reporting purposes under the heading of "State of Michigan Deferred Compensation Funds." In fiscal year 2016, the 401k deferred compensation plan was transferred to the State of Michigan 401K Plans Fund and combined with the defined contribution pension plan. As a result, the remaining 457 deferred compensation plan amounts are now included within the State of Michigan 457 Plans Fund.

Although the 457 plan and 401k plan are no longer combined for reporting purposes, the following policies still apply. Generally, the State makes no contribution to the 457 plan; however, the payments for other postemployment benefits related to employees hired prior to January 1, 2012, and who opted out of the graded premium may go to the 457 plan as employer contributions. Generally, the State does not make matching contributions to the 401k plan; however, the State of Michigan has occasionally made matching contributions to the 401k plan as part of certain State employees' compensation packages. To expand investment options, three investment tiers were developed and made available to participants on July 1, 1997. Participants invest their contributions and accumulated earnings by selecting investments in one or more of the investment tiers. Employees may, at any time, transfer accumulated balances and future contributions among the investment tiers. Investment earnings, net of administrative charges, are credited to the participants proportionally, based upon their balances in the plan.

The 457 and 401k plans include loan provisions for State of Michigan employees. Loans to participants are recorded as assets.

Michigan
Notes to the Financial Statements

NOTE 18 – INTERFUND RECEIVABLES AND PAYABLES

Primary Government

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

Due From	Due To						Total
	General Fund	School Aid Fund	Non-Major Governmental Funds	Unemployment Compensation Funds	Internal Service Funds	Fiduciary Funds	
General Fund	\$ -	\$ -	\$ -	\$ 0.6	\$ 5.6	\$ 67.3	\$ 73.5
School Aid Fund	1,387.5	-	-	-	-	-	1,387.5
Non-Major Governmental Funds	31.0	-	58.9	-	0.7	8.3	99.0
State Lottery Fund	-	34.0	-	-	-	0.3	34.4
Unemployment Compensation Funds	-	-	2.0	1.9	-	-	3.9
Non-Major Enterprise Funds	-	-	-	-	-	0.2	0.2
Internal Service Funds	-	-	-	-	2.3	3.8	6.1
Fiduciary Funds	1.6	-	-	-	-	-	1.6
Total	<u>\$ 1,420.0</u>	<u>\$ 34.0</u>	<u>\$ 61.0</u>	<u>\$ 2.5</u>	<u>\$ 8.6</u>	<u>\$ 79.9</u>	<u>\$ 1,606.0</u>

Interfund receivables and payables are recorded for borrowings to eliminate negative balances in the Common Cash pool, as described in Note 5, payroll liabilities for group insurance and retirement, and tax accrual distributions for taxes collected in the following fiscal year.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: \$1.9 million due from the Correctional Industries Revolving Fund (an internal service fund) to the General Fund for amounts loaned for capital construction and related accrued interest of \$2.2 million.

Discretely Presented Component Units

Receivables and related liabilities between the primary government and the discretely presented component units, do not agree because the Michigan State Housing Development Authority and the 10 State universities have a June 30 fiscal year-end.

NOTE 19 – INTERFUND COMMITMENTS

Mackinac Bridge Authority

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

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

As of September 30, 2016, MBA has repaid a total of \$14.3 million of the advance from the Michigan Transportation Fund, leaving a balance of \$48.7 million. No repayments have been made on the advance from the State Trunkline Fund.

Michigan
Notes to the Financial Statements

NOTE 20 – TRANSFERS

Interfund transfers as of September 30, consisted of the following (in millions):

Transferred From	Transferred To			Total
	General Fund	School Aid Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 55.1	\$ 590.4	\$ 645.5
School Aid Fund	-	-	9.6	9.6
Non-Major Governmental Funds	47.5	-	1,356.5	1,404.0
State Lottery Fund	4.4	888.9	2.6	895.9
Unemployment Compensation Funds	-	-	12.3	12.3
Non-Major Enterprise Funds	209.8	-	-	209.8
Internal Service Funds	7.6	-	-	7.6
Fiduciary Funds	0.2	-	-	0.2
Total	<u>\$ 269.4</u>	<u>\$ 944.0</u>	<u>\$ 1,971.5</u>	<u>\$ 3,185.0</u>

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

NOTE 21 – FUND DEFICITS

Primary Government

Governmental Funds

The Advance Financing Funds, a capital projects fund, had a fund balance deficit of \$0.1 million. The fund deficit was caused by expenditures for projects for which bonds have not yet been issued and for expenditures incurred to improve State-owned sites that have not been sold.

The State Building Authority, a capital projects fund, had a fund balance deficit of \$61.9 million. The fund deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Proprietary Funds

The Liquor Purchase Revolving Fund, an enterprise fund, had a net position deficit of \$20.9 million. As the result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, the Statement of Net Position now includes a portion of net pension liability related to the State Employees' Retirement System (SERS) that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Statement of Net Position now also includes Other Postemployment Benefit (OPEB) liability.

The Correctional Industries Revolving Fund, an internal service fund, had a net position deficit of \$0.4 million. As the result of the implementation of GASB Statement No. 68, the Statement of Net Position now includes a portion of net pension liability related to the SERS that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, the Statement of Net Position now also includes an OPEB liability.

The Information Technology Fund, an internal service fund, had a net position deficit of \$264.9 million. As the result of the implementation of GASB Statement No. 68, the Statement of Net Position now includes a portion of net pension liability related to the SERS that was allocated to the fund in accordance with GASB standards. As the result of clarification of GASB Statement No. 45, the Statement of Net Position now also includes an OPEB liability.

Michigan
Notes to the Financial Statements

NOTE 22 – FUND BALANCES AND NET POSITION

Fund Balance Classifications – Governmental Funds

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

	General Fund	School Aid Fund	Other Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total
Non-Spendable							
Inventory and prepaids	\$ 7.8	\$ -	\$ -	\$ -	\$ 12.2	\$ -	\$ 20.1
Long term notes/receivables	68.9	-	-	-	-	-	68.9
Permanent principal	-	-	227.3	-	-	790.7	1,018.0
Restricted							
General Government	89.7	-	13.2	-	-	-	103.0
Education	2.6	231.0	-	131.6	-	-	365.2
Public safety and corrections	16.1	-	2.3	-	-	5.7	24.1
Conservation, environment, recreation and agriculture	158.6	-	212.2	1.7	-	248.2	620.8
Health and human services	78.3	-	3.0	-	-	-	81.3
Transportation	-	-	107.9	-	985.2	-	1,093.1
Labor, commerce, and regulatory	122.2	-	50.2	-	-	-	172.5
Other purposes	-	-	-	56.3	-	-	56.3
Committed							
General Government	853.6 *	-	289.5	-	-	-	1,143.1
Education	9.3	-	-	-	-	-	9.3
Public safety and corrections	71.6	-	-	-	-	-	71.6
Conservation, environment, recreation and agriculture	74.3	-	-	-	-	-	74.3
Health and human services	200.0	-	-	-	-	-	200.0
Transportation	114.3	-	-	-	-	-	114.3
Labor, commerce, and regulatory	55.3	-	-	-	-	-	55.3
Assigned							
General Government	28.3	-	-	-	-	-	28.3
Education	0.8	-	-	-	-	-	0.8
Public safety and corrections	75.5	-	-	-	-	-	75.5
Conservation, environment, recreation and agriculture	14.5	-	-	-	-	-	14.5
Health and human services	28.0	-	-	-	-	-	28.0
Transportation	3.1	-	-	-	-	-	3.1
Labor, commerce, and regulatory	1.4	-	-	-	-	-	1.4
Unassigned	604.4	-	-	-	(62.0)	-	542.4
Total Fund Balances	<u>\$ 2,678.6</u>	<u>\$ 231.0</u>	<u>\$ 905.8</u>	<u>\$ 189.7</u>	<u>\$ 935.4</u>	<u>\$ 1,044.7</u>	<u>\$ 5,985.1</u>

* \$612.4 million of this balance relates to the Counter-Cyclical Budget and Economic Stabilization Fund as referenced in Note 3.

Michigan
Notes to the Financial Statements

Restricted Net Position – Primary Government

The following table provides additional detail regarding the restricted net position reported for the primary government on the government-wide Statement of Net Position at September 30 (in millions):

	Restricted by Enabling Legislation	External or Constitutional Restrictions	Total
Governmental Activities:			
Restricted For:			
Education	\$ 2.4	\$ 719.5	\$ 721.8
Public safety and corrections	13.8	4.6	18.4
Conservation, environment, recreation and agriculture	223.5	128.2	351.7
Health and human services	51.3	30.1	81.4
Transportation	-	1,027.4	1,027.4
Labor, commerce, and regulatory	176.4	-	176.4
Other purposes	103.9	19.5	123.4
Funds Held as Permanent Investments:			
Expendable	-	253.9	253.9
Nonexpendable	8.0	1,010.0	1,018.0
Total Restricted Net Position - Governmental	<u>\$ 579.3</u>	<u>\$ 3,193.2</u>	<u>\$ 3,772.5</u>
Business - Type Activities:			
Restricted For:			
Unemployment compensation	\$ 3,518.1	\$ -	\$ 3,518.1
Other purposes	8.7	-	8.7
Total Restricted Net Position - Business - Type	<u>\$ 3,526.8</u>	<u>\$ -</u>	<u>\$ 3,526.8</u>
Total Primary Government:			
Restricted For:			
Education	\$ 2.4	\$ 719.5	\$ 721.8
Public safety and corrections	13.8	4.6	18.4
Conservation, environment, recreation and agriculture	223.5	128.2	351.7
Health and human services	51.3	30.1	81.4
Transportation	-	1,027.4	1,027.4
Unemployment compensation	3,518.1	-	3,518.1
Labor, commerce, and regulatory	176.4	-	176.4
Other purposes	112.6	19.5	132.1
Funds Held as Permanent Investments:			
Expendable	-	253.9	253.9
Nonexpendable	8.0	1,010.0	1,018.0
Total Restricted Net Position - Primary Government	<u>\$ 4,106.1</u>	<u>\$ 3,193.2</u>	<u>\$ 7,299.3</u>

Michigan
Notes to the Financial Statements

NOTE 23 – DISAGGREGATION OF PAYABLES

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

	General Fund	School Aid Fund	Non-Major Governmental Funds	Other Funds	State Lottery Fund	Michigan Unemployment Compensation Funds	Non-Major Enterprise Funds	Total
Medicaid programs	\$ 1,194.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,194.9
Non-Medicaid health programs	484.0	-	-	-	-	-	-	484.0
Human Services programs	236.0	-	0.3	-	-	-	-	236.3
Transportation programs	-	-	420.1	-	-	-	-	420.1
School Aid programs	-	129.0	-	-	-	-	-	129.0
Other state programs	326.3	-	31.2	-	-	-	-	357.5
Merit Award scholarships	-	-	0.8	-	-	-	-	0.8
Payroll and withholdings	177.2	0.1	22.0	-	0.8	-	0.5	200.6
Tax refunds other than income tax	336.9	20.5	4.6	-	-	-	-	362.0
Unearned receipts	260.5	-	0.1	-	-	-	-	260.6
Amounts held for others	22.3	-	55.7	-	1.7	-	-	79.7
Capital Projects - Non-Transportation	-	-	17.8	-	-	-	-	17.8
Prize awards	-	-	-	-	87.7	-	-	87.7
Liquor purchase	-	-	-	-	-	-	97.8	97.8
Unemployment payments	-	-	-	-	-	36.7	-	36.7
Internal Service Fund liabilities	-	-	-	118.1	-	-	-	118.1
Due to fiduciary funds*	-	-	-	79.9	-	-	-	79.9
Miscellaneous	-	-	-	-	15.7	-	0.4	16.1
Total	\$ 3,038.1	\$ 149.6	\$ 552.7	\$ 198.0	\$ 106.0	\$ 36.7	\$ 98.7	\$ 4,179.8

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

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

NOTE 24 – CONTINGENCIES AND COMMITMENTS

Primary Government

Litigation

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

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

Michigan Notes to the Financial Statements

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

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

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

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

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

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

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

On March 8, 2006, the Supreme Court issued an order vacating the August 4, 2005, Court of Appeals decision and remanded the issue to the Court of Appeals for reevaluation of the record keeping claim. The Court of Appeals appointed a Special Master to oversee discovery and make proposed findings to the Court of Appeals. An evidentiary hearing before the Special Master was held in the summer of 2007.

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

Michigan Notes to the Financial Statements

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

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

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

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

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

The case was remanded to the Court of Appeals to determine cost and attorney fees. An evidentiary hearing before the court-appointed Special Master occurred in June 2011. On November 6, 2012, the Court of Appeals declined to award attorney fees for the original action concluding that plaintiffs failed to carry their burden of proving the hours reasonably expended in litigating the recordkeeping claim. The Court of Appeals also determined that plaintiffs were not entitled to costs or attorney fees for post-judgment proceedings. The Court of Appeals remanded to the Special Master for additional proofs and calculation of other costs. On remand the parties stipulated that other costs incurred up to July 14, 2010, were \$175,000. On May 24, 2013, in lieu of granting leave to appeal, the Michigan Supreme Court reversed the portion of the Court of Appeals decision denying all attorney fees for Phase II of the litigation (recordkeeping claim only) and remanded to the Court of Appeals to make findings regarding the amount of attorney fees during that phase of the case. The Court denied leave to appeal the denial of attorney fees for Phase I while the case involved multiple claims that were successfully defended, and Phase III for substantial post-trial costs and attorney fees relating to the attorney fee proceedings.

On August 9, 2013, the Court of Appeals issued an Order awarding attorney fees in the amount of \$1,348,677.60 for the Adair I trial (Phase II). But, on August 28, 2013, before the Order was effective, the plaintiff school districts filed an application for leave to appeal in the Michigan Supreme Court alleging that the Court of Appeals made several errors in its determination of the reasonable attorney fees. Because the plaintiffs filed an application for leave to appeal, the attorney fee award did not become effective. On November 4, 2013, the Adair plaintiffs filed a motion for immediate payment of the attorney fee award in the Michigan Supreme Court. The Michigan Supreme Court denied plaintiffs' application for leave. The Michigan Department of Education processed the attorney fee payment on January 21, 2014.

The Legislature allocated up to \$1.0 million in Section 22b(6) of the State School Aid Act, MCL 388.1622b(6) for this anticipated expense. The Legislature appropriated \$25.6 million in fiscal year 2011, and \$34.0 million in fiscal year 2012 to be used solely for the purpose of paying necessary costs related to the State-mandated collection, maintenance, and reporting of data to this State.

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

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

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Notes to the Financial Statements

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

On August 23, 2013, the Court rejected the Adair plaintiffs' challenge to the funding scheme which reallocated funds to provide a specific allocation for the record keeping requirements but did not provide a net increase in funding to districts. The Court of Appeals also granted declaratory relief in favor of the State and determined the teacher evaluation claims did not implicate Headlee. First, the Tenure Act changes merely modify existing protections and, thus, still provide a level of protection to tenured public teachers against the arbitrary and capricious employment practices of administrators and school boards. Under such circumstances, the new requirements imposed by the amended Tenure Act do not constitute activities under MCL 21.232(1) and, hence, the Prohibition of Unfunded Mandates (POUM) clause. Second, the Court determined that the revisions to the School Code do not implicate the POUM. It rejected the districts' facial challenge to the constitutionality of the implementing definitions. Next, the Court determined that the revision in the Public Employment Relations Act merely modified prohibited subjects of collective bargaining and did not impose any new requirements that implicate Headlee.

With regard to the adequacy of the funding appropriations, the Court remanded the case to the Special Master for further hearing and findings. The Court acknowledged the plaintiffs' higher burden once a mandated activity is funded, but concluded that "the higher burden borne by plaintiffs is the burden to present evidence of a sufficient nature to allow the trier of fact to conclude that the methodology employed by the Legislature to determine the amount of the appropriation was so flawed that it fails to reflect the actual cost to the State if the State were to provide the activity or service mandated as a State requirement."

Both parties filed applications for leave to appeal in the Michigan Supreme Court. On February 5, 2014, the Michigan Supreme Court granted the State defendants' application for leave to appeal. The Michigan Supreme Court directed that the parties shall include among the issues to be briefed: (1) which party has the burden of proving underfunding of a legislative mandate in a challenge under Constitution 1963, Article 9, Section 29, (2) what elements of proof are necessary to sustain such a claim and, (3) whether acceptance of a general appropriation from the Legislature which is specifically conditioned on compliance with reporting requirements pursuant to MCL 388.1622b(1)(c) waives any challenge to the funding level for those requirements under Constitution 1963, Article 9, Section 29. At the same time, the Michigan Supreme Court denied the plaintiff school districts' cross-application for leave appeal dismissal of their remaining claims.

As a result, the Court of Appeals' dismissal of the plaintiffs' claims that the State's funding method violated the Headlee Amendment and Proposal A because it merely shifted revenue from other school aid allocations, and that the State violated Constitution 1963, Article 9, Section 29, by enacting changes to teacher and administrator evaluation requirements without an appropriation to fund them, remains intact.

Subsequent to the fiscal year-end, on December 22, 2014, the Michigan Supreme Court reversed the Court of Appeals and reinstated the Special Master's involuntary dismissal of the case. The Court concluded that in a case alleging underfunding of a Headlee mandate that the plaintiff must allege and prove the specific amount of the funding shortfall (i.e., the extent of the necessary increased costs of the new or increased activity or service), in order to establish the extent of the harm caused by the Legislature's inadequate funding. The decision did not disturb the balance of the Court of Appeals' holdings not addressed in the decision.

After the Michigan Supreme Court reinstated involuntary dismissal of the plaintiffs' funding challenge through fiscal year 2011-12, plaintiffs filed an amended complaint in the August 10, 2012, action challenging method and sufficiency of legislative appropriation for Adair record keeping requirements since fiscal year 2011-12, and claim that teacher/administrator evaluation requirement is an unfunded mandate. The amended complaint also seeks monetary damages for the alleged underfunded activities. The Court of Appeals referred the case to Oakland Circuit Judge Michael Warren to conduct proceedings on the allegations of insufficient funding and the potential impact of the dismissal of the prior case on the plaintiffs' present claims. The Adair plaintiffs claim the underfunding for the cost of compliance with current reporting requirements is over \$100 million annually.

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On September 20, 2016, the Court of Appeals granted summary judgment in favor of the State defendants and dismissed the case in its entirety with prejudice. The Court concluded that the doctrine of *res judicata* bars further consideration of plaintiffs' underfunding claim. The Court explained that Adair II set that base rate of funding at \$34.0 million as a consequence of plaintiffs' inability or unwillingness to present appropriate proofs and the entry of an involuntary dismissal. The doctrine of *res judicata* bars further consideration of plaintiffs' claims of underfunding unless those claims are predicated on an alleged new violation of the POUM provision by the State (i.e., that the State imposed a new mandate through CEPI that requires plaintiff school districts to engage in new activities or services or to increase the level of activities or services currently being provided). The Court also denied plaintiffs' request for declaratory relief on the challenge to the funding scheme and teacher and administrator review process based on prior binding precedent under the rule of *stare decisis*.

On October 29, 2016, the plaintiffs filed an application for leave to appeal the portion of the Court of Appeals September 20, 2016 Order that granted summary judgment in favor of the State defendants and dismissed the request for declaratory relief on the challenge to the funding scheme that provided no new money to school districts. The application does not seek to appeal the remaining legal issues addressed in the Court of Appeals opinion.

Melisa Mays v Governor Snyder: The State of Michigan, Governor Snyder, Department of Environmental Quality (DEQ), Department of Health and Human Services (DHHS) and various other State employees, officers, and boards have been sued in approximately 20 lawsuits arising out of the Flint Water Crisis. Plaintiffs allege that the State defendants are responsible for a decision to use the Flint River as the drinking water source, which caused them to be exposed to contaminated water. According to plaintiffs, DEQ failed to order Flint to properly treat the drinking water, which allegedly caused the plaintiffs to be exposed to unsafe levels of lead and to legionella bacteria. Allegedly, DHHS failed to warn plaintiffs of the increased exposure to lead and to legionella. Over 2,300 individuals have filed notices of intent against the State defendants in the Court of Claims. Multiple class actions have been filed against State defendants seeking injunctive relief and monetary damages arising out of claims for bodily injury, property damage, statutory violations, and infringement of constitutional rights. Plaintiffs have not yet stated the total damages being sought, but the claimed damages will certainly exceed \$1.0 billion. The State defendants have asserted multiple defenses to those claims, which are under consideration by the courts. Recovery of the above amount is believed to be remote at this time.

Taxpayers for Michigan Constitutional Government v The State of Michigan: On September 7, 2016, plaintiffs filed suit against defendants in the Michigan Court of Appeals under the provisions of the Headlee Amendment to the Michigan Constitution. Plaintiffs named the Department of Technology, Management and Budget, the Office of the Auditor General, and the State as defendants. Among its provision, Section 30 of the Headlee Amendment requires that "The proportion of total state spending paid to all units of local government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79." The figure was recalculated in 1993 based on prior litigation. This means that each year, State spending in the form of aid to local governments, in the aggregate, must be at least 48.97 percent of total state spending from state revenue sources, as those terms are defined.

This case involves payments that should be counted toward, or excluded from, the 48.97 percent calculation. Plaintiffs allege that Proposal A funding, Charter School funding, and certain other issues, previously litigated, should not count toward the 48.97 percent. It is impossible at this early point in the litigation to estimate the potential fiscal impact of this case. Plaintiffs' pleadings do not quantify a specific dollar amount in contention.

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 liabilities in the government-wide and proprietary fund financial statements when the loss becomes probable and reasonably estimable. Disallowances are recognized as liabilities in the governmental fund financial statements when the loss becomes due and payable. As of September 30, 2016, the State estimates that any additional disallowances of recognized revenue will not be material to the general purpose financial statements.

Gain Contingencies

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

In 1998, the major United States tobacco product manufacturers entered into the Master Settlement Agreement ("MSA" or "Agreement") with the State of Michigan and separately with each of 51 other jurisdictions (the "Settling States") comprised of 46 states, the District of Columbia, Puerto Rico, and four U.S. territories. The MSA is the product of extensive negotiations between the Settling States and Participating Manufacturers ("PMs"). The Ingham County Circuit Court approved the MSA by entry of a Consent Decree on December 11, 1998. The Agreement releases the PMs from Michigan's claims that the PMs had conspired

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to conceal from the public the health risks related to smoking, and had specifically targeted minors in their marketing efforts. In return for the release, the MSA obligates the PMs to make annual payments to the states, and requires substantial changes in the companies' advertising and marketing practices, with the intention of reducing underage smoking. The MSA provides that an accounting firm ("Independent Auditor," or "Auditor") calculates the PMs' payments annually, using a specified formula. The payment is computed as an aggregate figure, which is then divided among the states according to percentages specified in the MSA. The Agreement requires the PMs to make their payments by April 15 of each year, in perpetuity, with Michigan receiving an allocable share of 4.3519476 percent of the total.

In December 2012, the State along with several other states signed a term sheet intending to settle litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the MSA. As a result of the settlement, the uncertainty regarding the State's disputed payment account and whether the State was diligently enforcing its collection legislation pursuant to the MSA during years 2003 through 2012 has been substantially eliminated. The State will avoid any further reduction of its tobacco payments for those years, and the State's share of those funds has been released. The settlement provides a more definitive framework for avoiding any similar disputes for subsequent years, but there is the potential for additional disputes concerning diligent enforcement. The settlement makes the MSA current, eliminating approximately 10 years of disputed payment withholdings.

It is impossible to calculate with precision Michigan's share of this 2016 sales-based payment, but it is expected to be between \$246.8 and \$280.9 million.

Contingent Liability for Local School District Bonds

Article 9, Section 16, of the Michigan Constitution resulted in a contingent liability for the bonds of any school district which are "qualified" by the State Treasurer. If, for any reason, a qualified school district will be, or is, unable to pay the principal and interest on its qualified bonds when due, the school district shall borrow, and the State shall lend to it, any amount necessary for the school district to avoid a default on its qualified bonds. In the event that adequate funds are not available in the School Loan Revolving Fund to make such a loan, the State is required to make loans from the General Fund. As of September 30, 2016, the principal amount of qualified bonds outstanding was \$13.6 billion. Total debt service requirements on these bonds including interest will be approximately \$1.6 billion in 2016. The amount of loans by the State (related to local school district bonds qualified under this program), outstanding to local school districts as of September 30, 2016, is \$708.9 million. Interest due on these loans as of September 30, 2016, is \$145.6 million.

Venture Michigan Fund Tax Vouchers

As of September 30, 2016, the Venture Michigan Fund (VMF) had \$350.0 million in tax vouchers outstanding. These vouchers are used as collateral for loans to early stage venture investment businesses as a mechanism to promote a healthy economic climate in Michigan. Of this amount, the State has recognized a liability of \$142.7 million in the government-wide statements. The liability represents a \$71.7 million prepayment on January 20, 2017, of all VMF I debt collateralized by tax vouchers and an additional \$71.0 million for VMF II tax vouchers expected to be sold and redeemed or nullified during the next five years. Upon full payment of VMF I debt, \$100.0 million in VMF tax vouchers were deemed null and void.

Michigan Economic Growth Authority (MEGA) Tax Credits

MEGA tax credits are awarded to businesses that commit to making capital investments that create and/or retain jobs in Michigan. During fiscal year 2015, a number of amendments were made to the MEGA tax credit program that will cap and reduce the liability in future years. As of September 30, 2016, an estimated \$7.6 billion in MEGA tax credits remained outstanding. The amount of MEGA tax credits expected to be redeemed is estimated at \$521.5 million in fiscal year 2017; \$539.3 million in fiscal year 2018; \$542.1 million in fiscal year 2019; and the remainder in subsequent fiscal years.

Michigan Brownfield Tax Credits

Michigan Brownfield Tax Credits are awarded to businesses that commit to revitalize, redevelop, and reuse contaminated, blighted, functionally obsolete, tax reverted, or historic property. Although the State stopped awarding new Brownfield Tax Credits in calendar year 2011, previously issued credits remain eligible for redemption. As of September 30, 2016, an estimated \$235.2 million in Brownfield Tax Credits remained outstanding. The amount of Brownfield Tax Credits expected to be redeemed is estimated at \$50.0 million in fiscal year 2017; \$35.0 million in fiscal year 2018; \$46.5 million in fiscal year 2019; and the remainder in subsequent fiscal years.

Other Contingent Liabilities

The State is involved in a number of court cases related to the apportionment formulas a taxpayer must use under the Michigan Business Tax. These cases are in varying stages in the Court of Claims, the Michigan Tax Tribunal, or within the Department of Treasury's hearings division. The State believes there is a remote possibility of the decisions in these cases being unfavorable to the State. However, if the decisions are unfavorable to the State, the potential liability related to these cases could be in excess of \$1.0 billion.

In addition, the State is involved in a court case challenging MCL 38.1343e, as enacted by P.A. 75 of 2010, which was in effect from July 1, 2010 to September 3, 2012, that has been amended by P.A. 300 of 2012. P.A. 75 of 2010 required that active members of the Michigan Public School Employees Retirement System (MPERS), contribute three percent of their compensation to help pay for the cost of health care for retirees of MPERS. Plaintiffs allege that the underlying retiree healthcare

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contribution is unconstitutional on grounds that it allegedly violates the contracts, takings, and substantive due process clauses of the State and United States Constitutions. The trial court ruled in the plaintiffs' favor and entered a preliminary injunction requiring that the plaintiffs' contributions not be applied toward the funding of retiree healthcare, but instead be placed in an interest-bearing account. The trial court ruling was affirmed by the Court of Appeals. On the first application for leave to the Michigan Supreme Court, the Michigan Supreme Court ordered that the Court of Appeals' decision be vacated and that the constitutionality of P.A. 75 of 2010 be reexamined by the Court of Appeals in light of the enactment of P.A. 300 of 2012 and the Michigan Supreme Court's April 2015 decision regarding the same. The Court of Appeals reaffirmed its earlier decision finding the statute unconstitutional. On July 19, 2016, The State filed an application for leave in the Michigan Supreme Court, which is currently pending. A decision unfavorable to the State would require approximately \$552.0 million in P.A. 75 of 2010 accumulated deductions to be refunded to MPERS members as of September 30, 2016.

Commitments and Encumbrances

The Michigan Department of Transportation has construction and consultant commitments that will be paid with transportation related funds. As of September 30, 2016, these commitments equaled \$487.4 million; a portion of this balance, \$125.1 million, has been encumbered.

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

	General Fund	School Aid Fund	Other Funds	Total
Restricted				
Education	\$ 0.6	\$ 34.7	\$ -	\$ 35.3
Public safety and corrections	21.3	-	-	21.3
Conservation, environment, recreation and agriculture	73.7	-	57.3	131.1
Health and human services	68.6	-	-	68.6
Transportation	-	-	258.9	258.9
Labor, commerce, and regulatory	7.6	-	3.2	10.8
Other purposes	25.7	-	1.0	26.7
Committed				
Education	0.1	-	-	0.1
Public safety and corrections	14.0	-	-	14.0
Conservation, environment, recreation and agriculture	9.2	-	-	9.2
Health and human services	23.8	-	-	23.8
Transportation	29.2	-	-	29.2
Labor, commerce, and regulatory	5.1	-	-	5.1
Other purposes	31.9	-	-	31.9
Assigned				
Education	0.8	-	-	0.8
Public safety and corrections	75.5	-	-	75.5
Conservation, environment, recreation and agriculture	15.4	-	-	15.4
Health and human services	29.5	-	-	29.5
Transportation	3.1	-	-	3.1
Labor, commerce, and regulatory	1.4	-	-	1.4
Other purposes	29.9	-	-	29.9
Total Encumbrances	\$ 466.6	\$ 34.7	\$ 320.4	\$ 821.7

Discretely Presented Component Units

Student Loan Guarantees

The Michigan Guaranty Agency (MGA), a fiduciary fund of the Michigan Finance Authority, is contingently liable for student loans made by financial institutions that qualify for guaranty. The State, other than MGA, is not liable for these loans. The default ratio for loans guaranteed by MGA is below five percent for the fiscal year ended September 30, 2016. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 2016, is 100 percent for loans made prior to

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October 1, 1993, 98.0 percent for loans made from October 1, 1993, to September 30, 1998, and 95.0 percent for loans made on or after October 1, 1998. In the event of future adverse default experience, MGA could be liable for up to 25.0 percent of defaulted loans. While management believes the MGA expected maximum contingent liability is less than 25.0 percent of outstanding guaranteed loans, the maximum contingent liability at 25.0 percent is \$433.6 million as of September 30, 2016. Management does not expect that all guaranteed loans could default in one year.

The MGA has entered into commitment agreements with all lenders that provide, among other things, that the MGA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. The MGA was in compliance with this requirement as of September 30, 2016.

Multi-Family Mortgage Loans

As of June 30, 2016, the Michigan State Housing Development Authority (MSHDA) has commitments to issue multi-family mortgage loans in the amount of \$60.9 million and single-family mortgage loans in the amount of \$20.0 million.

MSHDA has committed up to approximately \$1.1 million per year for up to 30 years from the date of completion of the respective developments (subject to three years advance notice of termination) from its accumulated reserves and future income to subsidize operations or rents for certain tenants occupying units in certain developments funded under MSHDA's multi-family program.

NOTE 25 – RISK MANAGEMENT

Primary Government

General

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

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

For unemployment claims, the Unemployment Insurance Agency (UIA) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities in the governmental fund financial statements for unemployment compensation, only to the extent paid by UIA through September 30. During fiscal year 2016, expenditures for payments to former State employees (not including university employees) totaled \$6.5 million. The potential liability for future payments cannot be estimated.

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

Risk Management Fund

This fund was established during fiscal year 1990 to account for insurance management activities implemented within the Department of Technology, Management and Budget. The automobile liability and administrative functions are accounted for as operating activities of this fund. Expenses and liabilities for claims, including incurred but not reported or not processed claims, have been recorded in the amount of \$7.6 million. This includes a long-term portion, which is recorded at \$4.6 million.

Michigan
Notes to the Financial Statements

Changes in the Risk Management Fund's claims for automobile liability for the fiscal years ending September 30, 2016 and 2015 are as follows (in millions):

	2016	2015
Balance - beginning	\$ 9.6	\$ 7.7
Current year claims and changes in estimates	(1.7)	4.7
Claim payments	(0.3)	(2.8)
Balance - ending	<u>\$ 7.6</u>	<u>\$ 9.6</u>

Workers' compensation payments for State agencies are processed centrally through the Risk Management Fund. Changes in workers' compensation claims for the fiscal years ending September 30, 2016 and 2015 are as follows (in millions):

	2016	2015
Balance - beginning	\$ 69.4	\$ 79.4
Current year claims and changes in estimates	8.0	7.6
Claim payments	(15.4)	(17.7)
Balance - ending	<u>\$ 61.9</u>	<u>\$ 69.4</u>

Workers' compensation is further described in Note 15.

State Sponsored Group Insurance Fund

The Department of Technology, Management and Budget and the Civil Service Commission use this fund to account for employee benefit programs, which are largely self-funded. In compliance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the retiree insurance benefits programs are no longer reported in this fund. Expenses and liabilities for claims, which include incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of \$130.3 million. This includes a long-term portion, which is recorded at a discounted present value of \$93.6 million. For all claims incurred prior to October 1, 2016, the discounted present value of the long-term disability liability was calculated over a 20-year period using a discount rate of approximately 0.8 percent.

Payments to the State Sponsored Group Insurance Fund are based on estimates of amounts needed to pay prior and current year claims. In addition, a portion of the fund's net position 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 \$37.0 million at September 30, 2016. Unrestricted net position totaled \$181.9 million at September 30, 2016.

Changes in the State Sponsored Group Insurance Fund's claims liability for employee benefit programs for the fiscal years ending September 30, 2016 and 2015 are as follows (in millions):

	2016	2015
Balance - beginning	\$ 132.4	\$ 129.0
Current year claims and changes in estimates	692.4	686.6
Claim payments	(694.5)	(683.3)
Balance - ending	<u>\$ 130.3</u>	<u>\$ 132.4</u>

Discretely Presented Component Units

State Universities

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

NOTE 26 – PLEDGED REVENUES

As authorized by legislation, certain revenues of the primary government are pledged to secure debt of the State's discretely presented component units, and to pay the debt service on those bond issuances. In 2006, the Michigan Tobacco Settlement Finance Authority (MTSFA) was created to issue tobacco settlement bonds, the proceeds of which were used to provide funding for the 21st Century Jobs Trust Fund, as well as the School Aid Fund, the General Fund, and a reserve fund. MTSFA was reported as a blended component unit of the State; MTSFA subsequently was transferred by Executive Order 2010-2 to the Michigan Finance Authority (MFA), a discretely presented component unit of the State. The bonds were securitized by a portion of the State's Tobacco Settlement Revenues (TSRs), which were payable to the State under the Master Settlement Agreement entered into by participating cigarette manufacturers in 1998. Beginning April 1, 2008, 13.3 percent of the State's share of the TSRs was pledged to pay tobacco settlement bonds issued in 2006; beginning April 1, 2010, 10.8 percent of TSRs was pledged to pay tobacco settlement bonds issued as part of the 2007 tobacco securitization. The State's share of the settlement is \$310.9 million per year until 2017; from 2018-2025, the State's share is \$348.3 million per year. The actual amount received by the State is less, and is affected by market and other factors related to cigarette manufacturing.

For the period ended September 30, 2016, the State's pledged revenue to MFA was \$60.1 million. A total amount of \$59.8 million was received in MFA's tobacco settlement debt service fund to contribute to annual debt service requirements of \$63.6 million. Shortfalls in the receipt of pledged revenue are made up by investment income if available or other resources; debt service on these bonds is payable solely from pledged TSRs.

The State Legislature issued Public Acts 267 and 268 of 2011, which permitted MFA to issue bonds to repay federal advances to the State's Unemployment Trust Account, avoid additional advances, pay unemployment benefits, and minimize the impact on unemployment insurance tax rates. This legislation also created the Unemployment Obligation Trust Fund to receive unemployment obligation assessment revenue created by the legislation and assessed on employers as long as obligations are outstanding. The assessment rate shall be an amount sufficient to ensure timely payment of debt service on the Unemployment Obligation Trust bonds. All revenue collected or earned in the fund is pledged to MFA for payment of the bonds or for other purposes specified in the legislation. During fiscal year 2016, \$480.0 million was recognized as revenue in the State's Unemployment Obligation Trust Fund and \$480.0 million was paid to MFA's unemployment obligation assessment debt service fund; debt service of \$481.7 million was paid from the fund during the current fiscal year. Remaining principal and interest requirements of the secured bonds totaled \$1.9 billion at September 30, 2016.

Michigan
Notes to the Financial Statements

NOTE 27 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The following table provides additional detail regarding deferred outflows of resources and deferred inflows of resources reported on the government-wide Statement of Net Position (in millions):

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivatives	\$ -	\$ -	\$ -	\$ 202.3
Refunding of debt	63.1	-	63.1	74.4
Pension Related:				
Difference between expected and actual experience	15.3	0.1	15.4	8.8
Changes of assumptions	21.2	-	21.2	3.4
Net difference between projected and actual earnings on pension plan investments	65.5	0.4	65.9	7.7
Changes in proportion and differences between contributions and proportionate share of contributions	3.2	0.1	3.2	3.1
Contributions subsequent to the measurement date	782.4	5.0	787.4	37.7
Total deferred outflows of resources	<u>\$ 950.7</u>	<u>\$ 5.6</u>	<u>\$ 956.2</u>	<u>\$ 337.3</u>
Deferred inflows of resources:				
Accumulated increase in fair value of hedging derivatives	\$ -	\$ -	\$ -	\$ 14.5
Loan origination fees	-	-	-	12.9
Refunding of debt	10.0	-	10.0	2.8
Pension Related:				
Differences between expected and actual experience	18.5	-	18.5	0.3
Changes of assumptions	-	-	-	3.3
Net difference between projected and actual earnings on pension plan investments	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	3.8	0.2	4.0	2.3
Total deferred inflows of resources	<u>\$ 32.4</u>	<u>\$ 0.2</u>	<u>\$ 32.6</u>	<u>\$ 36.0</u>

The following table provides additional detail regarding deferred inflows of resources reported in the governmental funds (in millions):

	General Fund	School Aid Fund	Non-Major Special Revenue Funds	Capital Projects Funds	Total Governmental Funds
Taxes considered unavailable	\$ 1,332.3	\$ 485.4	\$ 5.1	\$ -	\$ 1,822.9
Tobacco settlement receivables	-	-	157.6	-	157.6
School loan revolving program	145.6	-	-	-	145.6
Other	15.2	-	9.3	0.5	24.9
Total deferred inflows of resources	<u>\$ 1,493.1</u>	<u>\$ 485.4</u>	<u>\$ 172.0</u>	<u>\$ 0.5</u>	<u>\$ 2,151.0</u>

NOTE 28 – SUBSEQUENT EVENTS

Short-Term Borrowing

On December 8, 2016, the State Building Authority issued \$82.2 million of commercial paper notes bearing an interest rate of 0.8 percent. The notes mature on February 23, 2017.

Short-Term Borrowing - Discretely Presented Component Units

On December 20, 2016, the Michigan Finance Authority issued \$13.9 million of tax anticipation revenue notes bearing an interest rate of 3.5 percent. The notes will mature on October 6, 2017.

Long-Term Borrowing – Discretely Presented Component Units

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

	Bonds Issued
Eastern Michigan University	\$ 24.1
Ferris State University	56.2
Michigan Finance Authority	293.1
Michigan State Housing Development Authority	682.0
Total	<u>\$ 1,055.3</u>

On or about January 5, 2017, subsequent to its respective year-end of December 31, 2015, the Venture Michigan Fund (VMF) made a final loan drawn down of \$41.7 million, from their credit facility.

On January 20, 2017, VMF fully paid off its obligation under the Amended Securities Purchase Agreement that was used to fund the VMF's capital contribution to Venture Michigan Fund I, Limited Partnership. The total payment of \$88.7 million included \$71.7 million funded by the State of Michigan. Upon full payment of Venture Michigan Fund I debt, \$100.0 million in VMF tax vouchers used as collateral for the loan were deemed null and void.





FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Beginning Budgetary				
Fund Balance - Restated	\$ 2,197,815	\$ 2,197,815	\$ 2,197,815	\$ -
Resources (inflows):				
General Purpose Revenues:				
Taxes	9,478,900	9,508,383	9,508,383	-
Federal	30,000	18,827	18,827	-
Local	100	-	-	-
Licenses and permits	13,000	13,335	13,335	-
Services	8,000	6,693	6,693	-
Miscellaneous	123,100	269,494	269,494	-
Transfers in	188,500	216,559	216,559	-
Restricted Revenues:				
Taxes	3,546,653	4,739,126	4,739,126	-
Federal	19,639,290	18,218,960	18,218,960	-
Local	165,490	209,509	209,509	-
Licenses and permits	409,725	329,571	329,571	-
Services	365,385	325,142	325,142	-
Miscellaneous	931,843	697,384	697,384	-
Bonds Issued	-	81,786	81,786	-
Refunding Bonds Issued	-	78	78	-
Premium on Bonds Issued	-	18,352	18,352	-
Proceeds from sale of capital assets	-	2,543	2,543	-
Transfers in	68,715	52,888	52,888	-
Total Revenue Inflows	34,968,701	34,708,629	34,708,629	-
Amounts Available for Appropriation	37,166,516	36,906,444	36,906,444	-
Charges to Appropriations (outflows):				
Legislative Branch	175,518	162,831	162,217	614
Judicial Branch	286,224	257,206	256,118	1,088
Executive Branch:				
Agriculture and Rural Development	86,857	77,420	77,160	260
Attorney General	95,588	86,891	86,800	91
Civil Rights	16,129	15,289	14,630	659
Colleges and Universities Grants	1,457,968	1,457,786	1,455,863	1,923
Community Health	19,533,596	18,768,491	18,628,590	139,901
Corrections	1,959,627	1,962,258	1,953,221	9,037
Education	360,562	328,200	326,415	1,785
Environmental Quality	502,249	334,326	328,307	6,019
Executive Office	5,531	5,531	5,236	295
Human Services	5,472,560	5,048,461	5,036,528	11,933
Insurance and Financial Services	65,058	59,020	58,870	150
Licensing and Regulatory Affairs	367,432	324,280	297,313	26,967
Military and Veterans Affairs	163,262	162,575	161,839	736
Natural Resources	142,217	102,384	102,229	155
State	234,580	223,564	222,079	1,485
State Police	627,498	605,763	605,414	349
Talent and Economic Development	613,267	249,418	249,336	81
Technology, Management and Budget	773,418	922,523	915,246	7,277
Transportation	485,052	394,564	394,564	-
Treasury	1,914,381	3,841,201	3,784,414	56,787
Intrafund expenditure reimbursements	-	(559,798)	(559,798)	-
Total Charges to Appropriations	35,338,573	34,830,183	34,562,591	267,591
Reconciling Items:				
Change in noncurrent assets	-	46,123	46,123	-
Net Reconciling Items	-	46,123	46,123	-
Ending Budgetary				
Fund Balance	\$ 1,827,943	\$ 2,122,385	\$ 2,389,976	\$ 267,591

SCHOOL AID FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 265,760	\$ 265,760	\$ 265,760	\$ -
11,283,760	11,436,587	11,436,587	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	33,019	33,019	-
836,800	944,007	944,007	-
-	330	330	-
1,775,769	1,585,222	1,585,222	-
-	-	-	-
-	-	-	-
-	-	-	-
-	609	609	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
13,896,329	13,999,775	13,999,775	-
14,162,089	14,265,534	14,265,534	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
461,894	461,894	461,894	-
-	-	-	-
-	-	-	-
13,896,406	13,628,474	13,578,530	49,944
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	29,028	29,028	-
-	-	-	-
14,358,300	14,119,397	14,069,453	49,944
-	1,849	1,849	-
-	1,849	1,849	-
\$ (196,211)	\$ 147,987	\$ 197,931	\$ 49,944

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	GENERAL FUND	SCHOOL AID FUND
Sources/inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	\$ 36,906,444	\$ 14,265,534
Differences - Budget-to-GAAP:		
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(2,197,815)	(265,760)
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.	(2,543)	-
Bonds issued are inflows of budgetary resources but are not revenues for financial reporting purposes.	(100,215)	-
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(269,447)	(944,007)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 34,336,425</u>	<u>\$ 13,055,768</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	\$ 34,562,591	\$ 14,069,453
Differences - Budget-to-GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(17,072)	(25,597)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(645,526)	(9,610)
Capital lease acquisitions are not outflows of budgetary resources but are recorded as current expenditures and other financing sources under GAAP.	16,008	-
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	<u>\$ 33,916,001</u>	<u>\$ 14,034,245</u>

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

Statutory/Budgetary Presentation

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

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

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

The budgetary comparison schedule presented for the General Fund and the School Aid Fund presents both the original and final appropriated budgets for fiscal year 2016, as well as the actual resource inflows, outflows, and fund balance stated on the budgetary basis. The supplementary portion of this report includes a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, by fund type, for non-major special revenue, capital projects, and permanent funds with annual budgets. Those schedules only include the final appropriated budget.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of October 1, 2015, and includes multi-year projects budgetary carry-forwards from the prior fiscal year.

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

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

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

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

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

Statutory/Budgetary Reconciliation

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

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

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

Statewide Authorization Dispositions

Subsequent to the release of this report, the State publishes “Statewide Authorization Dispositions” to demonstrate its compliance with the legal level of budgetary control. The report includes line-item appropriation details for the General Fund and budgeted operating funds, and is available by contacting the State Budget Office, Office of Financial Management at (517) 373-1010.

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,452 lane miles of roads and 4,838 bridges (spans in excess of 20 feet).

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

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

Roads

Measurement Scale

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

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

Established Condition Level

No more than 30 percent of the pavements shall be rated as "Poor" or "Very Poor."

Assessed Conditions

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

Rating	2015	2014	2013
Good	74.6%	77.2%	78.1%
Poor	25.4%	22.8%	21.9%

Bridges

Measurement Scale

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

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

Established Condition Level

No more than 35 percent of the bridges shall be rated as "structurally deficient."

Assessed Conditions

A bridge is classified as structurally deficient if the deck, superstructure, substructure, or culvert is rated in "poor" condition (0 to 4 on the NBI rating scale). A bridge can also be classified as structurally deficient if its load carrying capacity is significantly below current design standards or if a waterway below frequently overtops the bridge during floods. The following table reports the percentage of bridges reported in the NBI (spans in excess of 20 feet) whose condition was assessed as "structurally deficient," in the stated year:

Fiscal Year	Structurally Deficient
2016	5.5%
2015	5.7%
2014	6.1%

Bridges that are not intended to carry highway traffic are not included in MDOT's condition assessment shown above. As a result, the number of bridges that were included in the structurally deficient calculation (4,483) in fiscal year 2016 is less than the total (4,838) maintained and assessed by the department.

Estimated and Actual Costs to Maintain

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

Fiscal Year	Estimated Spending	Actual Spending
2017	\$ 844.8	\$ -
2016	824.2	881.1
2015	729.3	749.0
2014	689.0	784.8
2013	737.0	838.6
2012	719.0	772.5

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

LEGISLATIVE RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2016	2015
Total Pension Liability		
Service Cost	\$ 62	\$ 57
Interest	11,839	11,297
Changes of benefit terms	-	-
Difference between expected and actual experience	406	-
Changes of Assumption	20,080	24,547
Benefit payments, including refunds of member contributions	(14,495)	(13,550)
Net Change in Total Pension Liability	\$ 17,891	\$ 22,351
Total Pension Liability - Beginning	229,755	207,404
Total Pension Liability - Ending	<u>\$ 247,646</u>	<u>\$ 229,755</u>
Plan Fiduciary Net Position		
Contributions - Employee	\$ -	\$ -
Contributions - Member	3	6
Net Investment Income	(6,545)	14,868
Benefit payments, including refunds of member contributions	(14,495)	(13,550)
Pension Plan Administrative Expense	(362)	(430)
Net Changes in Plan Fiduciary Net Pension	(21,400)	893
Plan Fiduciary Net Position - Beginning	154,957	154,063
Plan Fiduciary Net Position - Ending	<u>\$ 133,557</u>	<u>\$ 154,957</u>
Net Pension Liability (assets) - Ending	<u>\$ 114,090</u>	<u>\$ 74,799</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.9%	67.4%
Covered-Employee Payroll	\$ 72	\$ 72
Net Pension Liability as a Percentage of Covered-Employee Payroll	159154.3%	104343.7%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

STATE POLICE RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2016	2015
Total Pension Liability		
Service Cost	\$ 19,952	\$ 21,142
Interest	140,575	134,317
Changes of benefit terms	-	-
Difference between expected and actual experience	(6,998)	-
Changes of Assumption	-	36,683
Benefit payments, including refunds of member contributions	(115,469)	(110,551)
Net Change in Total Pension Liability	\$ 38,060	\$ 81,591
Total Pension Liability - Beginning	1,805,551	1,723,960
Total Pension Liability - Ending	<u>\$ 1,843,611</u>	<u>\$ 1,805,551</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 70,351	\$ 58,391
Contributions - Member	2,677	2,174
Net Investment Income	26,236	174,085
Benefit payments, including refunds of member contributions	(115,469)	(110,551)
Pension Plan Administrative Expense	(561)	(575)
Other	3	-
Net Changes in Plan Fiduciary Net Pension	(16,762)	123,524
Plan Fiduciary Net Position - Beginning	1,250,168	1,126,643
Plan Fiduciary Net Position - Ending	<u>\$ 1,233,405</u>	<u>\$ 1,250,168</u>
Net Pension Liability (assets) - Ending	<u>\$ 610,206</u>	<u>\$ 555,384</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.9%	69.2%
Covered-Employee Payroll	\$ 114,278	\$ 114,480
Net Pension Liability as a Percentage of Covered-Employee Payroll	534.0%	485.1%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

STATE EMPLOYEES' RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2016	2015
Total Pension Liability		
Service Cost	\$ 80,413	\$ 84,040
Interest	1,242,353	1,206,258
Changes of benefit terms	-	-
Difference between expected and actual experience	55,072	-
Changes of Assumption	-	406,962
Benefit payments, including refunds of member contributions	(1,265,480)	(1,223,033)
Net Change in Total Pension Liability	\$ 112,358	\$ 474,227
Total Pension Liability - Beginning	16,121,945	15,647,718
Total Pension Liability - Ending	<u>\$ 16,234,303</u>	<u>\$ 16,121,945</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 749,332	\$ 705,100
Contributions - Member	46,688	47,527
Net Investment Income	232,588	1,529,626
Benefit payments, including refunds of member contributions	(1,265,480)	(1,223,033)
Pension Plan Administrative Expense	(6,228)	(6,931)
Other	55	-
Net Changes in Plan Fiduciary Net Pension	(243,044)	1,052,290
Plan Fiduciary Net Position - Beginning	10,974,806	9,922,516
Plan Fiduciary Net Position - Ending	<u>\$ 10,731,762</u>	<u>\$ 10,974,806</u>
Net Pension Liability (assets) - Ending	<u>\$ 5,502,541</u>	<u>\$ 5,147,139</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.1%	68.1%
Covered-Employee Payroll	\$ 946,977	\$ 1,006,633
Net Pension Liability as a Percentage of Covered-Employee Payroll	581.1%	511.3%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS

JUDGES' RETIREMENT SYSTEM

LAST TWO FISCAL YEARS*

(In Thousands)

	2016	2015
State's Proportion of the Net Pension Liability (Asset)	100%	100%
Total Pension Liability		
Service Cost	\$ 2,439	\$ 2,747
Interest	19,771	19,569
Changes of benefit terms	-	-
Difference between expected and actual experience	924	-
Changes of Assumption	-	3,246
Benefit payments, including refunds of member contributions	(23,241)	(22,536)
Net Change in Total Pension Liability	\$ (108)	\$ 3,025
Total Pension Liability - Beginning	257,534	254,509
Total Pension Liability - Ending	<u>\$ 257,426</u>	<u>\$ 257,534</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,634	\$ 3,164
Contributions - Member	902	1,025
Net Investment Income	5,840	37,166
Benefit payments, including refunds of member contributions	(23,241)	(22,536)
Pension Plan Administrative Expense	(312)	(288)
Other	3	-
Net Changes in Plan Fiduciary Net Pension	<u>(14,175)</u>	<u>18,530</u>
Plan Fiduciary Net Position - Beginning	271,296	252,766
Plan Fiduciary Net Position - Ending	<u>\$ 257,121</u>	<u>\$ 271,296</u>
Net Pension Liability (assets) - Ending	<u>\$ 304</u>	<u>\$ (13,762)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.9%	105.3%
Covered-Employee Payroll	\$ 17,518	\$ 18,803
Net Pension Liability as a Percentage of Covered-Employee Payroll	1.7%	-73.2%

*Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).

The detail presented for the Judges' Retirement System, which is a cost sharing multi-employer plan, is based on the single employer requirements of GASB Statement No. 68, because the State makes 100% of the contributions. Although this statement does not require this level of detail for the Judges' Retirement System, the main components required for disclosure for a cost sharing multi-employer plan are part of the single employer requirements. Therefore, this schedule is in accordance with GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

MILITARY RETIREMENT SYSTEM

LAST FISCAL YEAR*

(In Thousands)

	2016
Total Pension Liability	
Service Cost	\$ 357
Interest	3,564
Changes of benefit terms	-
Difference between expected and actual experience	(17,548)
Changes of Assumption	7,086
Benefit payments, including refunds of member contributions	(3,923)
Net Change in Total Pension Liability	\$ (10,463)
Total Pension Liability - Beginning	88,503
Total Pension Liability - Ending	<u>\$ 78,040</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 4,267
Contributions - Member	-
Net Investment Income	-
Benefit payments, including refunds of member contributions	(3,923)
Pension Plan Administrative Expense	(344)
Other	-
Net Changes in Plan Fiduciary Net Pension	-
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending	<u>\$ -</u>
Net Pension Liability (assets) - Ending	<u>\$ 78,040</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.0%
Covered-Employee Payroll	\$ 484
Net Pension Liability as a Percentage of Covered-Employee Payroll	16110.3%

*Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, requires the presentation of supplementary information for each of the 10 most recent fiscal years. However, until a full 10-year trend is compiled, the State will present information for the years for which the information is available. Information presented in the schedule has been determined as of the measurement date (one year before the most recent fiscal year end).



REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS
LEGISLATIVE RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 8,063	\$ 7,843	\$ 6,327	\$ 5,993
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ 8,063</u>	<u>\$ 7,843</u>	<u>\$ 6,327</u>	<u>\$ 5,993</u>
Covered-employee payroll	\$ 72	\$ 72	\$ 72	\$ 72
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	0.0%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2016:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	10 years, Open
Asset Valuation Method	Five-year smoothed fair value
Inflation	4.0 percent
Salary Increases	4.0 percent
Investment Rate of Return	7.0 percent
Retirement Age	Age-based tables of rates with a 100 percent probability of retirement once a member is subject to term limits.
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale BB.

2012	2011	2010	2009	2008	2007
\$ 4,391	\$ 2,915	\$ 775	\$ 270	\$ -	\$ 395
-	-	-	270	-	395
<u>\$ 4,391</u>	<u>\$ 2,915</u>	<u>\$ 775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 72	\$ 143	\$ 1,173	\$ 1,151	\$ 1,332	\$ 1,332
0.0%	0.0%	0.0%	23.5%	0.0%	29.6%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS
STATE POLICE RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 70,858	\$ 63,271	\$ 61,401	\$ 57,668
Contributions in relation to the actuarially determined contribution	70,505	70,351	58,391	49,004
Contribution deficiency (excess)	<u>\$ 353</u>	<u>\$ (7,080)</u>	<u>\$ 3,010</u>	<u>\$ 8,663</u>
Covered-employee payroll	\$ 118,060	\$ 114,278	\$ 114,480	\$ 110,244
Contributions as a percentage of covered-employee payroll	59.7%	61.6%	51.0%	44.5%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2016:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	Five-year smoothed fair value
Inflation	2.5 percent
Salary Increases	3.5 percent wage inflation
Investment Rate of Return	8.0 percent (7.0 percent for Hybrid plan) net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility conditions.
Mortality	Post-Retirement Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2030 using projection scale BB for males and adjusted for mortality improvements to 2015 using projection scale BB for females. Pre-Retirement Mortality: 50.0 percent of the post retirement mortality table rates.

Michigan

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 52,276	\$ 47,248	\$ 41,607	\$ 36,698	\$ 33,670	\$ 32,387
40,687	38,574	37,898	35,435	34,365	24,323
<u>\$ 11,589</u>	<u>\$ 8,674</u>	<u>\$ 3,709</u>	<u>\$ 1,263</u>	<u>\$ (695)</u>	<u>\$ 8,063</u>
\$ 104,876	\$ 110,280	\$ 118,571	\$ 123,238	\$ 120,724	\$ 118,209
38.8%	35.0%	32.0%	28.8%	28.5%	20.6%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS
STATE EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS
(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 752,161	\$ 654,515	\$ 624,467	\$ 611,132
Contributions in relation to the actuarially determined contribution	716,465	749,332	705,100	604,845
Contribution deficiency (excess)	<u>\$ 35,697</u>	<u>\$ (94,817)</u>	<u>\$ (80,633)</u>	<u>\$ 6,287</u>
Covered-employee payroll	\$ 872,358	\$ 946,977	\$ 1,006,633	\$ 1,104,669
Contributions as a percentage of covered-employee payroll	82.1%	79.1%	70.0%	54.8%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2016:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	Five-year smoothed fair value
Inflation	2.5 percent
Salary Increases	3.5 percent wage inflation
Investment Rate of Return	8.0 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility conditions.
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100 percent of the table rates were used. For active members, 50.0 percent of the table rates were used for males and females.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 512,616	\$ 447,924	\$ 418,428	\$ 351,647	\$ 308,020	\$ 316,138
419,927	424,547	369,953	343,787	355,732	192,163
<u>\$ 92,689</u>	<u>\$ 23,377</u>	<u>\$ 48,475</u>	<u>\$ 7,859</u>	<u>\$ (47,712)</u>	<u>\$ 123,976</u>
\$ 1,155,757	\$ 1,321,472	\$ 1,603,842	\$ 1,698,834	\$ 1,775,358	\$ 1,783,387
36.3%	32.1%	23.1%	20.2%	20.0%	10.8%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

JUDGES' RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2016	2015	2014	2013
Actuarially determined contribution	\$ 2,138	\$ 2,593	\$ 3,123	\$ 2,751
Contributions in relation to the actuarially determined contribution	2,180	2,634	3,164	2,793
Contribution deficiency (excess)	<u>\$ (41)</u>	<u>\$ (41)</u>	<u>\$ (41)</u>	<u>\$ (42)</u>
Covered-employee payroll	\$ 14,757	\$ 17,518	\$ 18,803	\$ 18,939
Contributions as a percentage of covered-employee payroll	14.8%	15.0%	16.8%	14.7%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2016:

Actuarial Cost Method	Entry-Age Normal (Term Cost for death and disability)
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	Five-year smoothed fair value
Inflation	2.5 percent
Salary Increases	3.5 percent wage inflation
Investment Rate of Return	8.0 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility conditions.
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale BB.

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, does not require this schedule to be presented for the Judges' Retirement System, which is a cost sharing multi-employer plan. This schedule, which includes actuarially determined contributions, is based on the single employer requirements of GASB Statement No. 68. This schedule is presented as required supplementary information for the Judges' Retirement System because the State makes 100 percent of the contributions, which is consistent with the other State retirement systems.

2012	2011	2010	2009	2008	2007
\$ 1,068	\$ -	\$ -	\$ -	\$ -	\$ 186
1,111	43	43	43	44	231
<u>\$ (43)</u>	<u>\$ (43)</u>	<u>\$ (43)</u>	<u>\$ (43)</u>	<u>\$ (44)</u>	<u>\$ (45)</u>
\$ 22,922	\$ 23,565	\$ 25,504	\$ 27,027	\$ 29,476	\$ 29,717
4.8%	0.2%	0.2%	0.2%	0.2%	0.8%

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

MILITARY RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

(In Thousands)

	2016	2015	2014	2013
Actuarially determined contribution	\$ 5,200	\$ 6,293	\$ 6,293	\$ 5,359
Contributions in relation to the actuarially determined contribution	7,780	4,267	4,223	3,982
Contribution deficiency (excess)	<u>\$ (2,580)</u>	<u>\$ 2,026</u>	<u>\$ 2,071</u>	<u>\$ 1,377</u>
Covered-employee payroll*	\$ 469	\$ 484	Unavailable	\$ 457
Contributions as a percentage of covered-employee payroll	1657.3%	880.9%		871.2%

Valuation Date:

Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contributions for the Fiscal Year Ending September 30, 2016:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	N/A
Inflation	2.5 percent
Salary Increases	3.5 percent for Special Duty officers
Investment Rate of Return	8.0 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility conditions.
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.

Other Information:

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the Retirement System for use in the annual valuations beginning with the September 30, 2015, valuation.

*Covered-employee payroll relates to the three active Special Duty officers (Generals). Non-special duty members receive \$600 in annual pension benefits, which is not based on a percentage of payroll. Therefore, contributions expressed as percentages of active member payroll are not useful.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 5,359	\$ 3,892	\$ 3,892	\$ 3,811	\$ 3,811	\$ 3,608
4,007	3,709	3,613	3,382	3,200	3,141
<u>\$ 1,351</u>	<u>\$ 183</u>	<u>\$ 280</u>	<u>\$ 429</u>	<u>\$ 612</u>	<u>\$ 467</u>
Unavailable	\$ 142	Unavailable	\$ 428	Unavailable	\$ 647
	2612.5%		790.1%		485.6%





FINANCIAL SECTION

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

BALANCE SHEET**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

SEPTEMBER 30, 2016

(In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 153	\$ -	\$ 70	\$ -	\$ 222
Equity in common cash	698,882	1,924	956,445	48,982	1,706,234
Taxes, interest, and penalties receivable	96,230	-	1,248	-	97,478
Amounts due from other funds	38,021	-	22,963	-	60,983
Amounts due from component units	106	-	1,124	-	1,230
Amounts due from federal agencies	96,154	-	184,597	-	280,751
Amounts due from local units	2,650	-	76,422	195	79,268
Inventories	440	-	12,219	-	12,659
Investments	-	187,078	29,740	-	216,817
Other current assets	233,963	879	17,592	10,539	262,973
Total Current Assets	1,166,599	189,881	1,302,419	59,716	2,718,615
Taxes, interest, and penalties receivable	2,628	-	-	-	2,628
Amounts due from local units	18,191	-	40,342	-	58,533
Investments	265,691	-	-	1,000,000	1,265,691
Other noncurrent assets	1,866	-	-	-	1,866
Total Assets	\$ 1,454,974	\$ 189,881	\$ 1,342,761	\$ 1,059,716	\$ 4,047,332
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 2,117	\$ 2	\$ 4,447	\$ 279	\$ 6,845
Accounts payable and other liabilities	274,986	215	263,022	14,498	552,721
Amounts due to other funds	35,990	-	62,710	255	98,955
Amounts due to component units	58,652	-	-	-	58,652
Bonds and notes payable	-	-	71,175	-	71,175
Interest payable	-	-	2	-	2
Unearned revenue	5,447	-	5,443	-	10,890
Total Current Liabilities	377,192	217	406,799	15,032	799,240
Long-Term Liabilities:					
Unearned revenue	34	-	28	-	62
Total Liabilities	377,227	217	406,826	15,032	799,302
DEFERRED INFLOWS OF RESOURCES	171,989	-	488	-	172,476
FUND BALANCES					
Nonspendable	227,321	-	12,219	790,742	1,030,282
Restricted	388,904	189,664	985,240	253,942	1,817,750
Committed	289,534	-	-	-	289,534
Unassigned	-	-	(62,012)	-	(62,012)
Total Fund Balances	905,759	189,664	935,447	1,044,685	3,075,555
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,454,974	\$ 189,881	\$ 1,342,761	\$ 1,059,716	\$ 4,047,332

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTALS
REVENUES					
Taxes	\$ 2,113,957	\$ -	\$ 6,133	\$ -	\$ 2,120,090
From federal agencies	204,948	-	1,170,384	-	1,375,331
From local agencies	-	-	20,566	-	20,566
From services	3,977	-	4,066	-	8,042
From licenses and permits	209,078	-	18,166	-	227,244
Miscellaneous	847,336	81	82,303	107,911	1,037,632
Total Revenues	3,379,295	81	1,301,618	107,911	4,788,906
EXPENDITURES					
Current:					
General government	264,521	1,177	-	3,260	268,958
Education	-	3,018	102,372	-	105,390
Human services	31,900	-	-	-	31,900
Public safety and corrections	974	-	-	1,891	2,865
Conservation, environment, recreation, and agriculture	230,542	-	55	31,899	262,495
Labor, commerce, and regulatory	672,563	-	-	-	672,563
Health services	64,650	-	-	-	64,650
Transportation	1,349,611	2,353	1,029,917	-	2,381,881
Capital outlay	11,012	-	878,550	14,907	904,470
Debt Service:					
Bond principal retirement	-	452,695	-	-	452,695
Bond interest and fiscal charges	-	276,369	-	-	276,369
Capital lease payments	688	-	605	-	1,292
Total Expenditures	2,626,461	735,612	2,011,498	51,957	5,425,529
Excess of Revenues over (under) Expenditures	752,834	(735,531)	(709,880)	55,954	(636,623)
OTHER FINANCING SOURCES (USES)					
Bonds and bond anticipation notes issued	-	454	89,955	-	90,409
Refunding bonds issued	-	1,425,317	-	-	1,425,317
Premium on bond issuance	-	257,076	18,750	-	275,826
Discount on bond issuance	-	(2,773)	-	-	(2,773)
Payment to refunded bond escrow agent	-	(1,674,399)	-	-	(1,674,399)
Capital lease acquisitions	2,415	-	898	-	3,313
Proceeds from sale of capital assets	-	-	501	67	569
Transfers from other funds	323,525	727,918	920,074	-	1,971,516
Transfers to other funds	(1,119,905)	(62)	(283,749)	(286)	(1,404,003)
Total Other Financing Sources (Uses)	(793,965)	733,531	746,429	(219)	685,777
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(41,130)	(2,000)	36,549	55,735	49,154
Fund Balances - Beginning of fiscal year	946,889	191,664	898,898	988,949	3,026,401
Fund Balances - End of fiscal year	\$ 905,759	\$ 189,664	\$ 935,447	\$ 1,044,685	\$ 3,075,555

BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
 SEPTEMBER 30, 2016
 (In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 5	\$ 142	\$ 6	\$ -	\$ 153
Equity in common cash	149,512	172,283	79,719	297,369	698,882
Taxes, interest, and penalties receivable	96,086	145	-	-	96,230
Amounts due from other funds	35,973	-	2,048	-	38,021
Amounts due from component units	-	-	106	-	106
Amounts due from federal agencies	67,193	2,566	26,395	-	96,154
Amounts due from local units	565	2,061	24	-	2,650
Inventories	-	440	-	-	440
Other current assets	1,534	9,141	65,118	158,171	233,963
Total Current Assets	350,867	186,777	173,415	455,539	1,166,599
Taxes, interest, and penalties receivable	2,621	7	-	-	2,628
Amounts due from local units	369	17,822	-	-	18,191
Investments	-	241,839	-	23,852	265,691
Other noncurrent assets	227	427	-	1,212	1,866
Total Assets	\$ 354,084	\$ 446,871	\$ 173,415	\$ 480,603	\$ 1,454,974
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 1,049	\$ 199	\$ 644	\$ 226	\$ 2,117
Accounts payable and other liabilities	235,180	18,073	19,430	2,303	274,986
Amounts due to other funds	3,914	10,499	21,528	48	35,990
Amounts due to component units	-	-	58,652	-	58,652
Unearned revenue	154	1,767	3,525	-	5,447
Total Current Liabilities	240,297	30,538	103,779	2,578	377,192
Long-Term Liabilities:					
Unearned revenue	34	-	-	-	34
Total Liabilities	240,332	30,538	103,779	2,578	377,227
DEFERRED INFLOWS OF RESOURCES	5,899	630	6,910	158,549	171,989
FUND BALANCES					
Nonspendable	-	203,486	28	23,808	227,321
Restricted	107,853	212,217	58,800	10,034	388,904
Committed	-	-	3,898	285,635	289,534
Total Fund Balances	107,853	415,703	62,726	319,477	905,759
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 354,084	\$ 446,871	\$ 173,415	\$ 480,603	\$ 1,454,974

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS - BY CLASSIFICATION

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION, ENVIRONMENT, AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED	OTHER STATE FUNDS	TOTALS
REVENUES					
Taxes	\$ 2,113,776	\$ 181	\$ -	\$ -	\$ 2,113,957
From federal agencies	74,517	5,389	124,266	776	204,948
From services	3,970	-	7	-	3,977
From licenses and permits	37,280	156,560	15,237	-	209,078
Miscellaneous	15,257	96,195	543,681	192,203	847,336
Total Revenues	2,244,800	258,325	683,192	192,979	3,379,295
EXPENDITURES					
Current:					
General government	-	3,172	28,678	232,670	264,521
Human services	-	-	-	31,900	31,900
Public safety and corrections	-	-	-	974	974
Conservation, environment, recreation, and agriculture	-	230,542	-	-	230,542
Labor, commerce, and regulatory	-	-	656,216	16,347	672,563
Health services	-	-	-	64,650	64,650
Transportation	1,349,611	-	-	-	1,349,611
Capital outlay	-	11,012	-	-	11,012
Debt Service:					
Capital lease payments	-	-	688	-	688
Total Expenditures	1,349,611	244,726	685,582	346,542	2,626,461
Excess of Revenues over (under) Expenditures	895,188	13,599	(2,390)	(153,563)	752,834
OTHER FINANCING SOURCES (USES)					
Capital lease acquisitions	-	-	2,415	-	2,415
Transfers from other funds	179,771	33,736	16,619	93,400	323,525
Transfers to other funds	(1,081,101)	(25,145)	(13,617)	(42)	(1,119,905)
Total Other Financing Sources (Uses)	(901,330)	8,591	5,417	93,358	(793,965)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(6,142)	22,190	3,027	(60,205)	(41,130)
Fund Balances - Beginning of fiscal year	113,995	393,514	59,699	379,681	946,889
Fund Balances - End of fiscal year	\$ 107,853	\$ 415,703	\$ 62,726	\$ 319,477	\$ 905,759

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - BY CLASSIFICATION**
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

Statutory/Budgetary Basis	TRANSPORTATION RELATED			CONSERVATION, ENVIRONMENT, AND RECREATION RELATED		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 2,113,776	\$ 2,113,776	\$ -	\$ 181	\$ 181	\$ -
From federal agencies	74,517	74,517	-	5,389	5,389	-
From services	3,970	3,970	-	-	-	-
From licenses and permits	37,280	37,280	-	156,560	156,560	-
Miscellaneous	15,257	15,257	-	46,853	46,853	-
Transfers in	179,771	179,771	-	33,736	33,736	-
Total Revenues and Other Sources	2,424,570	2,424,570	-	242,720	242,720	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Attorney General	-	-	-	-	-	-
Health Services	-	-	-	-	-	-
Human Services	-	-	-	-	-	-
Licensing and Regulatory Affairs	-	-	-	-	-	-
Military and Veterans Affairs	-	-	-	-	-	-
State Police	-	-	-	-	-	-
Natural Resources	-	-	-	248,718	241,565	7,153
Talent and Economic Development	-	-	-	-	-	-
Technology, Management and Budget	-	-	-	-	-	-
Transportation	2,532,111	2,514,949	17,161	-	-	-
Treasury	-	-	-	3,022	2,807	215
Total Expenditures, Transfers Out, and Encumbrances	2,532,111	2,514,949	17,161	251,740	244,373	7,367
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (107,540)	(90,379)	\$ 17,161	\$ (9,020)	(1,653)	\$ 7,367
Reconciling Items:						
Encumbrances at September 30		84,237			13,565	
Funds not annually budgeted		-			10,278	
Net Reconciling Items		84,237			23,843	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(6,142)			22,190	
FUND BALANCES (GAAP BASIS)						
Beginning balances		113,995			393,514	
Ending balances (GAAP Basis)		\$ 107,853			\$ 415,703	

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REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,113,957	\$ 2,113,957	\$ -
124,266	124,266	-	776	776	-	204,948	204,948	-
7	7	-	-	-	-	3,977	3,977	-
15,237	15,237	-	-	-	-	209,078	209,078	-
47,163	47,163	-	174,142	174,142	-	283,416	283,416	-
16,619	16,619	-	93,400	93,400	-	323,525	323,525	-
203,292	203,292	-	268,318	268,318	-	3,138,900	3,138,900	-
-	-	-	485	423	62	485	423	62
-	-	-	64,660	64,650	10	64,660	64,650	10
-	-	-	32,967	31,905	1,061	32,967	31,905	1,061
21,683	18,917	2,767	-	-	-	21,683	18,917	2,767
-	-	-	1,001	197	805	1,001	197	805
-	-	-	793	791	2	793	791	2
-	-	-	-	-	-	248,718	241,565	7,153
136,624	136,624	-	-	-	-	136,624	136,624	-
-	-	-	11,900	11,900	-	11,900	11,900	-
-	-	-	-	-	-	2,532,111	2,514,949	17,161
39,905	39,905	-	506,054	220,367	285,687	548,981	263,079	285,902
198,213	195,446	2,767	617,861	330,234	287,627	3,599,924	3,285,002	314,922
\$ 5,079	7,846	\$ 2,767	\$ (349,542)	(61,915)	\$ 287,627	\$ (461,024)	(146,102)	\$ 314,922
	347			6			98,154	
	(5,166)			1,705			6,817	
	(4,819)			1,711			104,971	
	3,027			(60,205)			(41,130)	
	59,699			379,681			946,889	
\$ 62,726			\$ 319,477			\$ 905,759		



SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

MICHIGAN TRANSPORTATION FUND

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

COMPREHENSIVE TRANSPORTATION FUND

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

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
 SEPTEMBER 30, 2016
 (In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 5	\$ -	\$ 5
Equity in common cash	93,432	56,081	149,512
Taxes, interest, and penalties receivable	96,086	-	96,086
Amounts due from other funds	-	35,973	35,973
Amounts due from federal agencies	-	67,193	67,193
Amounts due from local units	-	565	565
Other current assets	14	1,519	1,534
Total Current Assets	189,536	161,331	350,867
Taxes, interest, and penalties receivable	2,621	-	2,621
Amounts due from local units	-	369	369
Other noncurrent assets	-	227	227
Total Assets	\$ 192,157	\$ 161,927	\$ 354,084
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 880	\$ 169	\$ 1,049
Accounts payable and other liabilities	182,345	52,835	235,180
Amounts due to other funds	3,795	119	3,914
Unearned revenue	1	153	154
Total Current Liabilities	187,022	53,275	240,297
Long-Term Liabilities:			
Unearned revenue	-	34	34
Total Liabilities	187,022	53,310	240,332
DEFERRED INFLOWS OF RESOURCES	5,136	764	5,899
FUND BALANCES			
Restricted	-	107,853	107,853
Total Fund Balances	-	107,853	107,853
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 192,157	\$ 161,927	\$ 354,084

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND	TOTALS
REVENUES			
Taxes	\$ 2,029,277	\$ 84,499	\$ 2,113,776
From federal agencies	2	74,515	74,517
From services	3,970	-	3,970
From licenses and permits	36,643	637	37,280
Miscellaneous	1,009	14,248	15,257
Total Revenues	2,070,901	173,899	2,244,800
EXPENDITURES			
Current:			
Transportation	1,009,601	340,011	1,349,611
Total Expenditures	1,009,601	340,011	1,349,611
Excess of Revenues over (under) Expenditures	1,061,300	(166,112)	895,188
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	1,427	178,344	179,771
Transfers to other funds	(1,062,727)	(18,374)	(1,081,101)
Total Other Financing Sources (Uses)	(1,061,300)	159,970	(901,330)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(6,142)	(6,142)
Fund Balances - Beginning of fiscal year	-	113,995	113,995
Fund Balances - End of fiscal year	\$ -	\$ 107,853	\$ 107,853

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED**
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN TRANSPORTATION FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
Taxes	\$ 2,029,277	\$ 2,029,277	\$ -
From federal agencies	2	2	-
From services	3,970	3,970	-
From licenses and permits	36,643	36,643	-
Miscellaneous	1,009	1,009	-
Transfers in	1,427	1,427	-
Total Revenues and Other Sources	<u>2,072,328</u>	<u>2,072,328</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	<u>2,085,507</u>	<u>2,072,328</u>	<u>13,180</u>
Total Expenditures, Transfers Out, and Encumbrances	<u>2,085,507</u>	<u>2,072,328</u>	<u>13,180</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (13,180)</u>	<u>-</u>	<u>\$ 13,180</u>
Reconciling Items:			
Encumbrances at September 30		<u>-</u>	
Net Reconciling Items		<u>-</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>-</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		<u>-</u>	
Ending balances (GAAP Basis)		<u>\$ -</u>	

COMPREHENSIVE TRANSPORTATION FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 84,499	\$ 84,499	\$ -	\$ 2,113,776	\$ 2,113,776	\$ -
74,515	74,515	-	74,517	74,517	-
-	-	-	3,970	3,970	-
637	637	-	37,280	37,280	-
14,248	14,248	-	15,257	15,257	-
178,344	178,344	-	179,771	179,771	-
352,243	352,243	-	2,424,570	2,424,570	-
446,603	442,622	3,981	2,532,111	2,514,949	17,161
446,603	442,622	3,981	2,532,111	2,514,949	17,161
<u>\$ (94,361)</u>	<u>(90,379)</u>	<u>\$ 3,981</u>	<u>\$ (107,540)</u>	<u>(90,379)</u>	<u>\$ 17,161</u>
	<u>84,237</u>			<u>84,237</u>	
	<u>84,237</u>			<u>84,237</u>	
	<u>(6,142)</u>			<u>(6,142)</u>	
	<u>113,995</u>			<u>113,995</u>	
	<u>\$ 107,853</u>			<u>\$ 107,853</u>	



SPECIAL REVENUE FUNDS – CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

MICHIGAN CONSERVATION AND RECREATION LEGACY FUND

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

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

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

MICHIGAN GAME AND FISH PROTECTION TRUST FUND

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

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

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND

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

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

FOREST DEVELOPMENT FUND

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

BOTTLE DEPOSITS FUND

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

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

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

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

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED

SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
ASSETS		
Current Assets:		
Cash	\$ 97	\$ 4
Equity in common cash	96,482	-
Taxes, interest, and penalties receivable	145	-
Amounts due from federal agencies	2,556	-
Amounts due from local units	853	-
Inventories	440	-
Other current assets	5,385	2,992
Total Current Assets	105,957	2,996
Taxes, interest, and penalties receivable	7	-
Amounts due from local units	-	-
Investments	1,817	234,677
Other noncurrent assets	-	-
Total Assets	\$ 107,781	\$ 237,673
LIABILITIES		
Current Liabilities:		
Warrants outstanding	\$ 142	\$ -
Accounts payable and other liabilities	13,549	-
Amounts due to other funds	1,688	8,229
Unearned revenue	1,767	-
Total Current Liabilities	17,146	8,229
Total Liabilities	17,146	8,229
DEFERRED INFLOWS OF RESOURCES	7	-
FUND BALANCES		
Nonspendable	-	189,459
Restricted	90,628	39,985
Total Fund Balances	90,628	229,443
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 107,781	\$ 237,673

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MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ 42	\$ -	\$ 142
2,714	21,594	51,492	172,283
-	-	-	145
-	10	-	2,566
-	-	1,208	2,061
-	-	-	440
26	139	599	9,141
2,739	21,786	53,299	186,777
-	-	-	7
-	-	17,822	17,822
5,345	-	-	241,839
-	-	427	427
\$ 8,085	\$ 21,786	\$ 71,547	\$ 446,871
\$ -	\$ 10	\$ 47	\$ 199
17	3,011	1,495	18,073
2	363	216	10,499
-	-	-	1,767
20	3,385	1,758	30,538
20	3,385	1,758	30,538
-	-	624	630
6,000	-	8,027	203,486
2,065	18,401	61,139	212,217
8,065	18,401	69,166	415,703
\$ 8,085	\$ 21,786	\$ 71,547	\$ 446,871

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - CONSERVATION, ENVIRONMENT, AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND	MICHIGAN GAME AND FISH PROTECTION TRUST FUND
REVENUES		
Taxes	\$ 181	\$ -
From federal agencies	5,290	-
From licenses and permits	156,558	-
Miscellaneous	4,730	26,614
Total Revenues	166,760	26,614
EXPENDITURES		
Current:		
General government	2,807	365
Conservation, environment, recreation, and agriculture	173,188	124
Capital outlay	10,859	-
Total Expenditures	186,855	489
Excess of Revenues over (under) Expenditures	(20,095)	26,125
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	33,736	-
Transfers to other funds	(3,063)	(16,090)
Total Other Financing Sources (Uses)	30,673	(16,090)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	10,578	10,035
Fund Balances - Beginning of fiscal year	80,050	219,408
Fund Balances - End of fiscal year	\$ 90,628	\$ 229,443

MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND	FOREST DEVELOPMENT FUND	BOTTLE DEPOSITS FUND	TOTALS
\$ -	\$ -	\$ -	\$ 181
-	99	-	5,389
-	2	-	156,560
1,617	40,506	22,727	96,195
1,617	40,607	22,727	258,325
-	-	-	3,172
340	36,959	19,931	230,542
-	153	-	11,012
340	37,112	19,931	244,726
1,277	3,495	2,797	13,599
-	-	-	33,736
(5)	(3,433)	(2,554)	(25,145)
(5)	(3,433)	(2,554)	8,591
1,272	62	243	22,190
6,793	18,339	68,923	393,514
\$ 8,065	\$ 18,401	\$ 69,166	\$ 415,703

**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, 2016

(In Thousands)

<u>Statutory/Budgetary Basis</u>	MICHIGAN CONSERVATION AND RECREATION LEGACY FUND			MICHIGAN NONGAME FISH AND WILDLIFE TRUST FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ 181	\$ 181	\$ -	\$ -	\$ -	\$ -
From federal agencies	5,290	5,290	-	-	-	-
From licenses and permits	156,558	156,558	-	-	-	-
Miscellaneous	4,730	4,730	-	1,617	1,617	-
Transfers in	33,736	33,736	-	-	-	-
Total Revenues and Other Sources	<u>200,496</u>	<u>200,496</u>	<u>-</u>	<u>1,617</u>	<u>1,617</u>	<u>-</u>
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Natural Resources	205,371	198,398	6,973	507	390	117
Treasury	<u>3,022</u>	<u>2,807</u>	<u>215</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures, Transfers Out and Encumbrances	<u>208,393</u>	<u>201,206</u>	<u>7,187</u>	<u>507</u>	<u>390</u>	<u>117</u>
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (7,897)</u>	<u>(710)</u>	<u>\$ 7,187</u>	<u>\$ 1,111</u>	<u>1,227</u>	<u>\$ 117</u>
Reconciling Items:						
Encumbrances at September 30		11,288			45	
Funds not annually budgeted		<u>-</u>			<u>-</u>	
Net Reconciling Items		<u>11,288</u>			<u>45</u>	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		<u>10,578</u>			<u>1,272</u>	
FUND BALANCES (GAAP BASIS)						
Beginning balances		<u>80,050</u>			<u>6,793</u>	
Ending balances (GAAP Basis)		<u>\$ 90,628</u>			<u>\$ 8,065</u>	

FUNDS NOT ANNUALLY BUDGETED

FOREST DEVELOPMENT FUND			MICHIGAN GAME AND FISH PROTECTION TRUST FUND	BOTTLE DEPOSITS FUND	TOTALS		
BUDGET	ACTUAL	VARIANCE	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 181	\$ 181	\$ -
99	99	-	-	-	5,389	5,389	-
2	2	-	-	-	156,560	156,560	-
40,506	40,506	-	-	-	46,853	46,853	-
-	-	-	-	-	33,736	33,736	-
40,607	40,607	-	-	-	242,720	242,720	-
42,840	42,777	63	-	-	248,718	241,565	7,153
-	-	-	-	-	3,022	2,807	215
42,840	42,777	63	-	-	251,740	244,373	7,367
<u>\$ (2,234)</u>	<u>(2,170)</u>	<u>\$ 63</u>	<u>-</u>	<u>-</u>	<u>\$ (9,020)</u>	<u>(1,653)</u>	<u>\$ 7,367</u>
	2,232		-	-		13,565	
	-		10,035	243		10,278	
	2,232		10,035	243		23,843	
	62		10,035	243		22,190	
	18,339		219,408	68,923		393,514	
<u>\$ 18,401</u>			<u>\$ 229,443</u>	<u>\$ 69,166</u>		<u>\$ 415,703</u>	



SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

Michigan Compiled Laws (MCL) Section 570.1201 created the Homeowner Construction Lien Recovery Fund to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid, despite filing a residential lien. MCL 570.1201 was repealed effective August 23, 2010. The Fund is still accruing monies received from licensees who had final orders issued by the Michigan Residential Builders' and Maintenance and Alteration Contractors' Board to reimburse the payouts from the Fund and/or legal costs.

MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND

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

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

SAFETY EDUCATION AND TRAINING FUND

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

SECOND INJURY FUND

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

SELF-INSURERS' SECURITY FUND

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

The SISF also administers bankrupt self-insured employer trust funds that are created for the payment of employer obligations due under the Michigan Workers' Disability Compensation Act. Employer obligations are reported as liabilities of this fund.

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND

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

STATE CONSTRUCTION CODE FUND

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

UTILITY CONSUMER REPRESENTATION FUND

Established by Michigan Compiled Laws Section 460.6m, the Utility Consumer Representation Fund provides funding, on behalf of residential gas, fuel, and electric customers, for energy cost recovery hearings before the Michigan Public Service Commission. The costs of operation and expenses incurred by the Utility Consumer Participation board in performing its duties under this section and section 460.6l, shall also be paid from the fund. Revenues are generated through annual assessments of regulated utility companies.

UNEMPLOYMENT OBLIGATION TRUST FUND

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

STATE CASINO GAMING FUND

Created by Michigan Compiled Laws (MCL) Section 432.212, this fund provides the licensing, regulation, and control of casino gaming activities in Michigan via the five-member gaming control board created under MCL 432.204. Additional responsibilities include the performance of authorized inspections of tribal Class III gaming facilities and records pursuant to and in accordance with the provisions of the various tribal/state compacts as delegated by the Governor in November 2002; the regulation of live horse racing per Executive Order 2009-45; and the licensing and regulation of Millionaire Party charitable gaming events per Executive Order 2012-4.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
 SEPTEMBER 30, 2016
 (In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in common cash	242	-	7,606	11,105	33,389
Amounts due from other funds	-	790	-	-	-
Amounts due from component units	-	106	-	-	-
Amounts due from federal agencies	-	26,395	-	-	-
Amounts due from local units	-	24	-	-	-
Other current assets	-	-	-	338	1,060
Total Current Assets	<u>242</u>	<u>27,315</u>	<u>7,606</u>	<u>11,443</u>	<u>34,449</u>
Total Assets	<u>\$ 242</u>	<u>\$ 27,315</u>	<u>\$ 7,606</u>	<u>\$ 11,443</u>	<u>\$ 34,449</u>
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ -	\$ 21	\$ 15	\$ 180	\$ 391
Accounts payable and and other liabilities	-	6,278	453	1,167	10,088
Amounts due to other funds	-	21,016	114	18	12
Amounts due to component units	-	-	-	-	-
Unearned revenue	-	-	-	2,061	1,159
Total Current Liabilities	<u>-</u>	<u>27,315</u>	<u>582</u>	<u>3,426</u>	<u>11,649</u>
Total Liabilities	<u>-</u>	<u>27,315</u>	<u>582</u>	<u>3,426</u>	<u>11,649</u>
DEFERRED INFLOWS OF RESOURCES					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	-	-	28	-
Restricted	242	-	7,025	7,989	22,800
Committed	-	-	-	-	-
Total Fund Balances	<u>242</u>	<u>-</u>	<u>7,025</u>	<u>8,017</u>	<u>22,800</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 242</u>	<u>\$ 27,315</u>	<u>\$ 7,606</u>	<u>\$ 11,443</u>	<u>\$ 34,449</u>

Michigan

SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	STATE CONSTRUCTION CODE FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	STATE CASINO GAMING FUND	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 6
1,277	8,288	1,869	1,012	14,931	79,719
-	-	-	1,258	-	2,048
-	-	-	-	-	106
-	-	-	-	-	26,395
-	-	-	-	-	24
129	-	-	63,293	296	65,118
1,406	8,288	1,869	65,563	15,234	173,415
<u>\$ 1,406</u>	<u>\$ 8,288</u>	<u>\$ 1,869</u>	<u>\$ 65,563</u>	<u>\$ 15,234</u>	<u>\$ 173,415</u>
\$ 30	\$ 5	\$ -	\$ -	\$ 2	\$ 644
294	254	90	-	806	19,430
5	95	5	-	263	21,528
-	-	-	58,652	-	58,652
256	-	-	-	49	3,525
585	354	95	58,652	1,120	103,779
585	354	95	58,652	1,120	103,779
-	-	-	6,910	-	6,910
-	-	-	-	-	28
821	7,934	1,774	-	10,215	58,800
-	-	-	-	3,898	3,898
821	7,934	1,774	-	14,113	62,726
<u>\$ 1,406</u>	<u>\$ 8,288</u>	<u>\$ 1,869</u>	<u>\$ 65,563</u>	<u>\$ 15,234</u>	<u>\$ 173,415</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND	SAFETY EDUCATION AND TRAINING FUND	SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND
REVENUES					
From federal agencies	\$ -	\$ 124,266	\$ -	\$ -	\$ -
From services	-	-	-	-	-
From licenses and permits	-	-	-	-	-
Miscellaneous	19	13	11,092	9,137	4,958
Total Revenues	19	124,279	11,092	9,137	4,958
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Labor, commerce, and regulatory	-	136,941	9,818	10,372	8,414
Debt Service:					
Capital lease payments	-	688	-	-	-
Total Expenditures	-	137,629	9,818	10,372	8,414
Excess of Revenues over (under) Expenditures	19	(13,350)	1,274	(1,235)	(3,457)
OTHER FINANCING SOURCES (USES)					
Capital lease acquisitions	-	2,415	-	-	-
Transfers from other funds	-	12,345	-	-	-
Transfers to other funds	-	(1,410)	(134)	(22)	(13)
Total Other Financing Sources (Uses)	-	13,350	(134)	(22)	(13)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	19	-	1,141	(1,257)	(3,470)
Fund Balances - Beginning of fiscal year	222	-	5,884	9,274	26,270
Fund Balances - End of fiscal year	\$ 242	\$ -	\$ 7,025	\$ 8,017	\$ 22,800

SILICOSIS, DUST
DISEASE, AND
LOGGING
INDUSTRY
COMPENSATION
FUND

STATE
CONSTRUCTION
CODE FUND

UTILITY CONSUMER
REPRESENTATION
FUND

UNEMPLOYMENT
OBLIGATION
TRUST FUND

STATE CASINO
GAMING FUND

TOTALS

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,266
-	4	-	-	3	7
-	14,151	-	-	1,087	15,237
1,209	17	1,185	480,030	36,022	543,681
1,209	14,172	1,185	480,030	37,111	683,192
-	-	688	-	27,990	28,678
1,574	8,505	561	480,030	-	656,216
-	-	-	-	-	688
1,574	8,505	1,249	480,030	27,990	685,582
(365)	5,667	(64)	-	9,121	(2,390)
-	-	-	-	-	2,415
-	-	-	-	4,273	16,619
(5)	(112)	(5)	-	(11,915)	(13,617)
(5)	(112)	(5)	-	(7,642)	5,417
(370)	5,554	(69)	-	1,479	3,027
1,191	2,380	1,843	-	12,634	59,699
\$ 821	\$ 7,934	\$ 1,774	\$ -	\$ 14,113	\$ 62,726

**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, 2016
(In Thousands)

Statutory/Budgetary Basis	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND			MICHIGAN EMPLOYMENT SECURITY ACT - ADMINISTRATION FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
From federal agencies	\$ -	\$ -	\$ -	\$ 124,266	\$ 124,266	\$ -
From services	-	-	-	-	-	-
From licenses and permits	-	-	-	-	-	-
Miscellaneous	19	19	-	13	13	-
Transfers in	-	-	-	12,345	12,345	-
Total Revenues and Other Sources	19	19	-	136,624	136,624	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Licensing and Regulatory Affairs	-	-	-	-	-	-
Talent and Economic Development	-	-	-	136,624	136,624	-
Treasury	-	-	-	-	-	-
Total Expenditures, Transfers Out, and Encumbrances	-	-	-	136,624	136,624	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 19	19	\$ -	\$ -	-	\$ -
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)		19			-	
FUND BALANCES (GAAP BASIS)						
Beginning balances		222			-	
Ending balances (GAAP Basis)		\$ 242			\$ -	

SAFETY EDUCATION AND TRAINING FUND			STATE CONSTRUCTION CODE FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	4	4	-
-	-	-	14,151	14,151	-
11,092	11,092	-	17	17	-
-	-	-	-	-	-
11,092	11,092	-	14,172	14,172	-
10,981	9,952	1,029	10,702	8,965	1,738
-	-	-	-	-	-
-	-	-	-	-	-
10,981	9,952	1,029	10,702	8,965	1,738
\$ 111	1,140	\$ 1,029	\$ 3,470	5,207	\$ 1,738
-	-	-	-	347	-
-	-	-	-	-	-
-	-	-	-	347	-
1,141				5,554	
5,884				2,380	
\$ 7,025				\$ 7,934	

This schedule continued on next page.

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

Statutory/Budgetary Basis	STATE CASINO GAMING FUND		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
From services	3	3	-
From licenses and permits	1,087	1,087	-
Miscellaneous	36,022	36,022	-
Transfers in	4,273	4,273	-
Total Revenues and Other Sources	41,384	41,384	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Licensing and Regulatory Affairs	-	-	-
Talent and Economic Development	-	-	-
Treasury	39,905	39,905	-
Total Expenditures, Transfers Out, and Encumbrances	39,905	39,905	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 1,479	1,479	\$ -
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		-	
Net Reconciling Items		-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		1,479	
FUND BALANCES (GAAP BASIS)			
Beginning balances		12,634	
Ending balances (GAAP Basis)		\$ 14,113	

FUNDS NOT ANNUALLY BUDGETED

SECOND INJURY FUND	SELF-INSURERS' SECURITY FUND	SILICOSIS, DUST DISEASE, AND LOGGING INDUSTRY COMPENSATION FUND	UTILITY CONSUMER REPRESENTATION FUND	UNEMPLOYMENT OBLIGATION TRUST FUND	TOTALS		
					BUDGET	ACTUAL	VARIANCE
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL			
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 124,266	\$ 124,266	\$ -
-	-	-	-	-	7	7	-
-	-	-	-	-	15,237	15,237	-
-	-	-	-	-	47,163	47,163	-
-	-	-	-	-	16,619	16,619	-
-	-	-	-	-	203,292	203,292	-
-	-	-	-	-	21,683	18,917	2,767
-	-	-	-	-	136,624	136,624	-
-	-	-	-	-	39,905	39,905	-
-	-	-	-	-	198,213	195,446	2,767
-	-	-	-	-	\$ 5,079	7,846	\$ 2,767
-	-	-	-	-		347	
(1,257)	(3,470)	(370)	(69)	-		(5,166)	
(1,257)	(3,470)	(370)	(69)	-		(4,819)	
(1,257)	(3,470)	(370)	(69)	-		3,027	
9,274	26,270	1,191	1,843	-		59,699	
\$ 8,017	\$ 22,800	\$ 821	\$ 1,774	\$ -		\$ 62,726	



SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

21st CENTURY JOBS TRUST FUND

Michigan Compiled Laws Section 12.257 created the 21st Century Jobs Trust Fund to account for the transfer of the net bond proceeds issued by the Michigan Tobacco Settlement Finance Authority. Executive Order 2010-2 moved the Authority to the Michigan Finance Authority. The bonds were issued to provide sufficient funds to purchase all or a portion of the State's receipts from the master settlement agreement between tobacco manufacturers and the State. Fund expenditures are used to reimburse the Michigan Strategic Fund for expenses related to revitalizing Michigan's economy and for other programs as determined by the Legislature. The fund may accept donations of money from any source; all interest earned is deposited into the State's General Fund. Beginning in fiscal year 2008 through 2019, the fund will also receive a portion of the tobacco settlement revenue received by the State.

MICHIGAN MERIT AWARD TRUST FUND

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

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

CHILDREN'S TRUST FUND

Michigan Compiled Laws (MCL) Section 21.171, established the Children's Trust Fund to support the State Child Abuse and Neglect Prevention Board (MCL Section 722.603) to coordinate and fund activities for the prevention of child abuse and neglect in the State. All money contributed to the fund in a fiscal year, plus 4.25 percent of the twelve-quarter rolling average of the fund, shall be available for disbursement. Beginning October 1, 2017, provided that the rolling average of the fund for the previous twelve quarters is at least \$23.5 million, up to 5 percent of the twelve-quarter rolling average shall be available for disbursement. If the rolling average is less than \$23.5 million, up to 4.25 percent of the twelve-quarter rolling average shall continue to be available for disbursement. Money received as gifts or donations to the trust fund shall be available for disbursement upon appropriation. Funds that are not available for disbursement are reported as nonspendable fund balance.

MILITARY FAMILY RELIEF FUND

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

MISCELLANEOUS SPECIAL REVENUE FUNDS

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

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 285,516	\$ 789	\$ 2,941
Other current assets	56,250	101,552	236
Total Current Assets	341,766	102,341	3,177
Investments	-	-	23,852
Other noncurrent assets	-	814	-
Total Assets	\$ 341,766	\$ 103,155	\$ 27,029
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 1	\$ 3
Accounts payable and other liabilities	-	871	296
Amounts due to other funds	-	30	11
Total Current Liabilities	-	902	311
Total Liabilities	-	902	311
DEFERRED INFLOWS OF RESOURCES	56,250	102,134	-
FUND BALANCES			
Nonspendable	-	-	23,808
Restricted	-	-	2,911
Committed	285,516	119	-
Total Fund Balances	285,516	119	26,718
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 341,766	\$ 103,155	\$ 27,029

MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ 2,345	\$ 5,777	\$ 297,369
-	133	158,171
2,345	5,910	455,539
-	-	23,852
-	398	1,212
\$ 2,345	\$ 6,308	\$ 480,603
\$ 3	\$ 219	\$ 226
19	1,117	2,303
-	7	48
22	1,343	2,578
22	1,343	2,578
-	165	158,549
-	-	23,808
2,323	4,800	10,034
-	-	285,635
2,323	4,800	319,477
\$ 2,345	\$ 6,308	\$ 480,603

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	21ST CENTURY JOBS TRUST FUND	MICHIGAN MERIT AWARD TRUST FUND	CHILDREN'S TRUST FUND
REVENUES			
From federal agencies	\$ -	\$ -	\$ 776
Miscellaneous	75,000	96,468	2,598
Total Revenues	75,000	96,468	3,374
EXPENDITURES			
Current:			
General government	170,692	61,978	-
Human services	-	30,100	1,800
Public safety and corrections	-	779	-
Labor, commerce, and regulatory	-	-	-
Health services	-	64,650	-
Total Expenditures	170,692	157,507	1,800
Excess of Revenues over (under) Expenditures	(95,692)	(61,040)	1,574
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	93,400	-	-
Transfers to other funds	-	(28)	(6)
Total Other Financing Sources (Uses)	93,400	(28)	(6)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(2,292)	(61,068)	1,569
Fund Balances - Beginning of fiscal year	287,808	61,187	25,150
Fund Balances - End of fiscal year	\$ 285,516	\$ 119	\$ 26,718

MILITARY FAMILY RELIEF FUND	MISCELLANEOUS SPECIAL REVENUE FUNDS	TOTALS
\$ -	\$ -	\$ 776
77	18,061	192,203
77	18,061	192,979
-	-	232,670
-	-	31,900
195	-	974
-	16,347	16,347
-	-	64,650
195	16,347	346,542
(119)	1,714	(153,563)
-	-	93,400
-	(8)	(42)
-	(8)	93,358
(119)	1,705	(60,205)
2,441	3,095	379,681
\$ 2,323	\$ 4,800	\$ 319,477

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

<u>Statutory/Budgetary Basis</u>	<u>21ST CENTURY JOBS TRUST FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES			
From federal agencies	\$ -	\$ -	\$ -
Miscellaneous	75,000	75,000	-
Transfers in	93,400	93,400	-
Total Revenues and Other Sources	168,400	168,400	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Attorney General	-	-	-
Health Services	-	-	-
Human Services	-	-	-
Military and Veterans Affairs	-	-	-
State Police	-	-	-
Technology, Management and Budget	-	-	-
Treasury	456,208	170,692	285,516
Total Expenditures, Transfers Out, and Encumbrances	456,208	170,692	285,516
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	<u>\$ (287,808)</u>	<u>(2,292)</u>	<u>\$ 285,516</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>(2,292)</u>	
FUND BALANCES (GAAP BASIS)			
Beginning balances		287,808	
Ending balances (GAAP Basis)		<u>\$ 285,516</u>	

Michigan

MICHIGAN MERIT AWARD TRUST FUND			CHILDREN'S TRUST FUND			MILITARY FAMILY RELIEF FUND		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ -	\$ -	\$ -	\$ 776	\$ 776	\$ -	\$ -	\$ -	\$ -
96,468	96,468	-	2,598	2,598	-	77	77	-
-	-	-	-	-	-	-	-	-
96,468	96,468	-	3,374	3,374	-	77	77	-
485	423	62	-	-	-	-	-	-
64,660	64,650	10	-	-	-	-	-	-
30,100	30,100	-	2,867	1,805	1,061	-	-	-
-	-	-	-	-	-	1,001	197	805
793	791	2	-	-	-	-	-	-
11,900	11,900	-	-	-	-	-	-	-
49,846	49,675	171	-	-	-	-	-	-
157,785	157,540	245	2,867	1,805	1,061	1,001	197	805
<u>\$ (61,317)</u>	<u>(61,072)</u>	<u>\$ 245</u>	<u>\$ 507</u>	<u>1,569</u>	<u>\$ 1,061</u>	<u>\$ (925)</u>	<u>(120)</u>	<u>\$ 805</u>
4	-	-	-	-	-	1	-	-
4	-	-	-	-	-	1	-	-
(61,068)	-	-	1,569	-	-	(119)	-	-
61,187	-	-	25,150	-	-	2,441	-	-
<u>\$ 119</u>	<u>-</u>	<u>-</u>	<u>\$ 26,718</u>	<u>-</u>	<u>-</u>	<u>\$ 2,323</u>	<u>-</u>	<u>-</u>

This schedule continued on next page.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS (Continued)**
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	<u>FUNDS NOT ANNUALLY BUDGETED</u>			
	<u>MISCELLANEOUS SPECIAL REVENUE FUNDS</u>		<u>TOTALS</u>	
<u>Statutory/Budgetary Basis</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES AND OTHER SOURCES				
From federal agencies	\$ -	\$ 776	\$ 776	\$ -
Miscellaneous	-	174,142	174,142	-
Transfers in	-	93,400	93,400	-
Total Revenues and Other Sources	-	268,318	268,318	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY				
Attorney General	-	485	423	62
Health Services	-	64,660	64,650	10
Human Services	-	32,967	31,905	1,061
Military and Veterans Affairs	-	1,001	197	805
State Police	-	793	791	2
Technology, Management and Budget	-	11,900	11,900	-
Treasury	-	506,054	220,367	285,687
Total Expenditures, Transfers Out, and Encumbrances	-	617,861	330,234	287,627
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	<u>\$ (349,542)</u>	<u>(61,915)</u>	<u>\$ 287,627</u>
Reconciling Items:				
Encumbrances at September 30	-		6	
Funds not annually budgeted	1,705		1,705	
Net Reconciling Items	1,705		1,711	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	1,705		(60,205)	
FUND BALANCES (GAAP BASIS)				
Beginning balances	3,095		379,681	
Ending balances (GAAP Basis)	<u>\$ 4,800</u>		<u>\$ 319,477</u>	

DEBT SERVICE FUNDS

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

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

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

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

RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND

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

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

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

SCHOOL LOAN BOND REDEMPTION FUND

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

STATE BUILDING AUTHORITY

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

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

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ 5	\$ 162	\$ 1,743
Investments	-	-	-
Other current assets	-	-	-
Total Current Assets	<u>5</u>	<u>162</u>	<u>1,743</u>
Total Assets	<u>\$ 5</u>	<u>\$ 162</u>	<u>\$ 1,743</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 2	\$ -	\$ -
Accounts payable and other liabilities	3	162	6
Total Current Liabilities	<u>5</u>	<u>162</u>	<u>6</u>
Total Liabilities	<u>5</u>	<u>162</u>	<u>6</u>
FUND BALANCES			
Restricted	-	-	1,737
Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,737</u>
Total Liabilities and Fund Balances	<u>\$ 5</u>	<u>\$ 162</u>	<u>\$ 1,743</u>

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ 14	\$ -	\$ 1,924
-	187,078	187,078
-	879	879
14	187,957	189,881
<u>\$ 14</u>	<u>\$ 187,957</u>	<u>\$ 189,881</u>
\$ -	\$ -	\$ 2
14	30	215
14	30	217
14	30	217
-	187,927	189,664
-	187,927	189,664
<u>\$ 14</u>	<u>\$ 187,957</u>	<u>\$ 189,881</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	RECREATION AND ENVIRONMENTAL PROTECTION BOND REDEMPTION FUND
REVENUES			
Miscellaneous	\$ -	\$ -	\$ 73
Total Revenues	-	-	73
EXPENDITURES			
Current:			
General government	-	-	739
Education	-	-	-
Transportation	2,353	1	-
Debt Service:			
Bond principal retirement	125,465	16,525	118,495
Bond interest and fiscal charges	79,106	6,191	31,116
Total Expenditures	206,924	22,716	150,350
Excess of Revenues over (under) Expenditures	(206,924)	(22,716)	(150,277)
OTHER FINANCING SOURCES (USES)			
Bonds and bond anticipation notes issued	-	-	454
Refunding bonds issued	661,165	-	59,950
Premium on bond issuance	153,679	-	13,653
Discount on bond issuance	-	-	-
Payment to refunded bond escrow agent	(812,491)	-	(73,356)
Transfers from other funds	204,571	22,716	149,630
Transfers to other funds	-	-	-
Total Other Financing Sources (Uses)	206,924	22,716	150,332
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	55
Fund Balances - Beginning of fiscal year	-	-	1,681
Fund Balances - End of fiscal year	\$ -	\$ -	\$ 1,737

SCHOOL LOAN BOND REDEMPTION FUND	STATE BUILDING AUTHORITY	TOTALS
\$ -	\$ 8	\$ 81
-	8	81
438	-	1,177
-	3,018	3,018
-	-	2,353
83,432	108,778	452,695
42,673	117,282	276,369
126,544	229,078	735,612
(126,544)	(229,070)	(735,531)
-	-	454
129,007	575,195	1,425,317
-	89,744	257,076
-	(2,773)	(2,773)
(128,569)	(659,983)	(1,674,399)
126,105	224,894	727,918
-	(62)	(62)
126,544	227,015	733,531
-	(2,055)	(2,000)
-	189,982	191,664
\$ -	\$ 187,927	\$ 189,664

CAPITAL PROJECTS FUNDS

STATE TRUNKLINE FUND

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

This fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Activities of the Blue Water Bridge program, segregated as a separate fund within the accounting system, are also reported within the State Trunkline Fund.

STATE AERONAUTICS FUND

Established pursuant to Michigan Compiled Laws Section 259.34, this fund accounts for airport improvement projects, of which a majority are locally owned. Financing consists primarily of aviation fuel taxes and federal contributions.

COMBINED STATE TRUNKLINE BOND PROCEEDS FUND

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

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

Established pursuant to Michigan Compiled Laws Section 247.668b, this fund accounts for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are used in part to finance the costs of locally owned comprehensive transportation projects.

TRANSPORTATION RELATED TRUST FUNDS

The Michigan Department of Transportation is recognized as the legal representative of the State, including all governmental subdivisions, in the administration of the Federal Highway Administration programs. The financing accounted for in this fund consists primarily of revenues from the federal Highway Trust Fund utilized to reimburse municipalities for road and bridge program activities with very little State funds. All projects accounted for in this fund are locally owned.

COMBINED RECREATION BOND FUND

Established in 1988, this fund has operated under Michigan Compiled Law Sections 324.19601 – 324.19616, 324.71303, 324.71501 – 324.71514, and 324.74106 – 324.74113. The balances in the fund are derived from proceeds and investment earnings remaining from \$50 million of general obligation bonds approved by voters in November 1998 as part of a \$675 million bond package known as the “Clean Michigan Initiative” for both State and local projects. The balance retained in the fund is currently being appropriated for post completion inspection of local projects.

A 1988 bond package, which has been fully expended, provided \$70 million of general obligation bonds to finance State and local public recreation projects to construct, expand, and develop recreational facilities at State parks, provide grants and loans to local units of government for recreation projects and to discourage development of open space and underdeveloped lands. Proceeds from the 1998 bond package have been used to improve State parks with the installation or upgrade of drinking water systems or restroom facilities and provide grants and loans to local units of government for recreation projects.

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

STATE BUILDING AUTHORITY

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

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

ADVANCE FINANCING FUNDS

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

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

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

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

COMBINING BALANCE SHEET**CAPITAL PROJECTS FUNDS**

SEPTEMBER 30, 2016

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
ASSETS				
Current Assets:				
Cash	\$ 69	\$ -	\$ -	\$ -
Equity in common cash	900,319	4,284	43,841	7,911
Taxes, interest, and penalties receivable	-	1,248	-	-
Amounts due from other funds	2,955	-	-	-
Amounts due from component units	1,124	-	-	-
Amounts due from federal agencies	106,471	37,643	1,666	-
Amounts due from local units	19,202	5,513	1,573	-
Inventories	12,219	-	-	-
Investments	-	-	-	-
Other current assets	17,537	54	-	-
Total Current Assets	1,059,897	48,742	47,080	7,911
Amounts due from local units	40,066	277	-	-
Total Assets	\$ 1,099,963	\$ 49,018	\$ 47,080	\$ 7,911
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 4,349	\$ 25	\$ -	\$ -
Accounts payable and other liabilities	156,528	24,138	151	1,285
Amounts due to other funds	4,668	9,438	-	-
Bonds and notes payable	-	-	-	-
Interest payable	-	-	-	-
Unearned revenue	5,413	-	30	-
Total Current Liabilities	170,958	33,601	181	1,285
Long-Term Liabilities:				
Unearned revenue	28	-	-	-
Total Liabilities	170,986	33,601	181	1,285
DEFERRED INFLOWS OF RESOURCES	488	-	-	-
FUND BALANCES				
Nonspendable	12,219	-	-	-
Restricted	916,270	15,418	46,899	6,625
Unassigned	-	-	-	-
Total Fund Balances	928,490	15,418	46,899	6,625
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,099,963	\$ 49,018	\$ 47,080	\$ 7,911

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 70
-	28	63	-	956,445
-	-	-	-	1,248
-	-	-	20,007	22,963
-	-	-	-	1,124
38,817	-	-	-	184,597
50,134	-	-	-	76,422
-	-	-	-	12,219
-	-	29,740	-	29,740
-	-	-	-	17,592
<u>88,952</u>	<u>28</u>	<u>29,803</u>	<u>20,007</u>	<u>1,302,419</u>
-	-	-	-	40,342
<u>\$ 88,952</u>	<u>\$ 28</u>	<u>\$ 29,803</u>	<u>\$ 20,007</u>	<u>\$ 1,342,761</u>
\$ 73	\$ -	\$ -	\$ -	\$ 4,447
63,095	-	519	17,307	263,022
25,784	-	20,014	2,806	62,710
-	-	71,175	-	71,175
-	-	2	-	2
-	-	-	-	5,443
<u>88,952</u>	<u>-</u>	<u>91,709</u>	<u>20,113</u>	<u>406,799</u>
-	-	-	-	28
<u>88,952</u>	<u>-</u>	<u>91,709</u>	<u>20,113</u>	<u>406,826</u>
-	-	-	-	488
-	-	-	-	12,219
-	28	-	-	985,240
-	-	(61,906)	(106)	(62,012)
-	28	(61,906)	(106)	935,447
<u>\$ 88,952</u>	<u>\$ 28</u>	<u>\$ 29,803</u>	<u>\$ 20,007</u>	<u>\$ 1,342,761</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	STATE TRUNKLINE FUND	STATE AERONAUTICS FUND	COMBINED STATE TRUNKLINE BOND PROCEEDS FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND
REVENUES				
Taxes	\$ -	\$ 6,133	\$ -	\$ -
From federal agencies	783,776	57,181	64,154	-
From local agencies	20,411	68	88	-
From services	3,322	744	-	-
From licenses and permits	17,802	363	-	-
Miscellaneous	80,525	127	65	75
Total Revenues	905,836	64,616	64,307	75
EXPENDITURES				
Current:				
Education	-	-	-	-
Conservation, environment, recreation, and agriculture	-	-	-	-
Transportation	694,014	68,509	53	2,603
Capital outlay	859,676	110	5,752	8
Debt service:				
Capital lease payments	605	-	-	-
Total Expenditures	1,554,295	68,619	5,806	2,611
Excess of Revenues over (under) Expenditures	(648,459)	(4,003)	58,502	(2,537)
OTHER FINANCING SOURCES (USES)				
Bonds and bond anticipation notes issued	-	-	-	-
Premium on bond issuance	23	-	-	-
Capital lease acquisitions	898	-	-	-
Proceeds from sale of capital assets	501	-	-	-
Transfers from other funds	883,606	8,000	2	-
Transfers to other funds	(215,394)	(4,624)	(34,852)	-
Total Other Financing Sources (Uses)	669,635	3,376	(34,850)	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	21,176	(627)	23,651	(2,537)
Fund Balances - Beginning of fiscal year	907,314	16,045	23,247	9,162
Fund Balances - End of fiscal year	\$ 928,490	\$ 15,418	\$ 46,899	\$ 6,625

Michigan

TRANSPORTATION RELATED TRUST FUNDS	COMBINED RECREATION BOND FUND	STATE BUILDING AUTHORITY	ADVANCE FINANCING FUNDS	TOTALS
\$ -	\$ -	\$ -	\$ -	\$ 6,133
263,272	-	-	2,000	1,170,384
-	-	-	-	20,566
-	-	-	-	4,066
-	-	-	-	18,166
1,465	-	46	-	82,303
<u>264,737</u>	<u>-</u>	<u>46</u>	<u>2,000</u>	<u>1,301,618</u>
-	-	102,371	1	102,372
-	55	-	-	55
264,737	-	-	-	1,029,917
-	-	11,003	2,000	878,550
-	-	-	-	605
<u>264,737</u>	<u>55</u>	<u>113,374</u>	<u>2,001</u>	<u>2,011,498</u>
-	(54)	(113,328)	(1)	(709,880)
-	-	89,955	-	89,955
-	-	18,727	-	18,750
-	-	-	-	898
-	-	-	-	501
-	-	62	28,404	920,074
-	-	(28,880)	-	(283,749)
<u>-</u>	<u>-</u>	<u>79,864</u>	<u>28,404</u>	<u>746,429</u>
-	(54)	(33,464)	28,403	36,549
-	82	(28,442)	(28,509)	898,898
<u>\$ -</u>	<u>\$ 28</u>	<u>\$ (61,906)</u>	<u>\$ (106)</u>	<u>\$ 935,447</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

Statutory/Budgetary Basis	STATE TRUNKLINE FUND			STATE AERONAUTICS FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Taxes	\$ -	\$ -	\$ -	\$ 6,133	\$ 6,133	\$ -
From federal agencies	783,776	783,776	-	57,181	57,181	-
From local agencies	20,411	20,411	-	68	68	-
From services	3,322	3,322	-	744	744	-
From licenses and permits	17,802	17,802	-	363	363	-
Miscellaneous	80,525	80,525	-	127	127	-
Premium on bond issuance	23	23	-	-	-	-
Proceeds from sale of capital assets	501	501	-	-	-	-
Transfers in	883,606	883,606	-	8,000	8,000	-
Total Revenues and Other Sources	1,789,966	1,789,966	-	72,616	72,616	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Transportation	1,866,117	1,804,134	61,983	76,163	74,570	1,593
Total Expenditures, Transfers Out, and Encumbrances	1,866,117	1,804,134	61,983	76,163	74,570	1,593
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (76,151)	(14,168)	\$ 61,983	\$ (3,547)	(1,954)	\$ 1,593
Reconciling Items:						
Encumbrances at September 30		35,344			1,327	
Funds not annually budgeted		-			-	
Net Reconciling Items		35,344			1,327	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		21,176			(627)	
FUND BALANCES (GAAP BASIS)						
Beginning balances		907,314			16,045	
Ending balances (GAAP Basis)		\$ 928,490			\$ 15,418	

This schedule continued on next page.

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

<u>Statutory/Budgetary Basis</u>	TOTALS		
	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES			
Taxes	\$ 6,133	\$ 6,133	\$ -
From federal agencies	840,957	840,957	-
From local agencies	20,478	20,478	-
From services	4,066	4,066	-
From licenses and permits	18,166	18,166	-
Miscellaneous	80,652	80,652	-
Premium on bond issuance	23	23	-
Proceeds from sale of capital assets	501	501	-
Transfers in	891,606	891,606	-
Total Revenues and Other Sources	1,862,582	1,862,582	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY			
Transportation	1,942,280	1,878,704	63,576
Total Expenditures, Transfers Out, and Encumbrances	1,942,280	1,878,704	63,576
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ (79,698)	(16,122)	\$ 63,576
Reconciling Items:			
Encumbrances at September 30		36,672	
Funds not annually budgeted		16,000	
Net Reconciling Items		52,671	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		36,549	
FUND BALANCES (GAAP BASIS)			
Beginning balances		898,898	
Ending balances (GAAP Basis)		\$ 935,447	

PERMANENT FUNDS

MICHIGAN NATURAL RESOURCES TRUST FUND

Article 9, Section 35, of the State Constitution created the Michigan Natural Resources Trust Fund (MNRTF). The fund, established in 1985, operates under Sections 324.1901 - 324.1908 of the Michigan Compiled Laws. The State Treasurer directs fund investments, which include fixed income and equity investments.

In May of 2011, the MNRTF reached the constitutional limit of \$500 million on the investment corpus. As a result, the MNRTF no longer receives revenue generated from oil and gas bonuses, rentals, and royalties from State-owned land. Constitutionally, these revenue sources are now deposited into the Michigan State Parks Endowment Fund.

Constitutional provisions limit all future MNRTF appropriations to investment and other miscellaneous income of the fund. Appropriations are used to fund grants to local units of government as well as State agencies to acquire land or develop public recreation facilities and to fund payments in lieu of property taxes on State lands acquired by the fund.

MICHIGAN STATE PARKS ENDOWMENT FUND

Established in 1994, the Michigan State Parks Endowment Fund (MSPEF) is governed by the provisions of Michigan Compiled Laws Section 324.74119 to finance operations, maintenance, and capital improvements at Michigan State parks. The voters approved a constitutional amendment in August 2002 that changed the distribution formula and allows the State Treasurer to invest in equity securities and other types of investments.

The fund was established with a \$40 million transfer from the sale of the Accident Fund of Michigan to provide funds for permanent investment. Currently all revenues previously attributable to the Michigan Natural Resources Trust Fund from oil and gas bonuses, rentals, and royalties from State-owned land are deposited in the MSPEF until its accumulated principal is capped at \$800 million.

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

MICHIGAN VETERANS' TRUST FUND

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

COMBINING BALANCE SHEET
PERMANENT FUNDS
 SEPTEMBER 30, 2016
 (In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
ASSETS				
Current Assets:				
Equity in common cash	\$ 35,483	\$ 10,557	\$ 2,943	\$ 48,982
Amounts due from local units	-	-	195	195
Other current assets	7,439	2,927	173	10,539
Total Current Assets	42,922	13,483	3,311	59,716
Investments	674,735	272,796	52,469	1,000,000
Total Assets	\$ 717,657	\$ 286,280	\$ 55,780	\$ 1,059,716
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 241	\$ 36	\$ 2	\$ 279
Accounts payable and other liabilities	9,279	5,190	29	14,498
Amounts due to other funds	9	238	8	255
Total Current Liabilities	9,528	5,465	39	15,032
Total Liabilities	9,528	5,465	39	15,032
FUND BALANCES				
Nonspendable	500,000	240,742	50,000	790,742
Restricted	208,129	40,073	5,740	253,942
Total Fund Balances	708,129	280,815	55,740	1,044,685
Total Liabilities and Fund Balances	\$ 717,657	\$ 286,280	\$ 55,780	\$ 1,059,716

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

PERMANENT FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN NATURAL RESOURCES TRUST FUND	MICHIGAN STATE PARKS ENDOWMENT FUND	MICHIGAN VETERANS' TRUST FUND	TOTALS
REVENUES				
Miscellaneous	\$ 56,831	\$ 46,737	\$ 4,344	\$ 107,911
Total Revenues	56,831	46,737	4,344	107,911
EXPENDITURES				
Current:				
General government	2,810	387	63	3,260
Public safety and corrections	-	-	1,891	1,891
Conservation, environment, recreation, and agriculture	10,248	21,651	-	31,899
Capital outlay	11,004	3,904	-	14,907
Total Expenditures	24,062	25,942	1,954	51,957
Excess of Revenues over (under) Expenditures	32,769	20,795	2,390	55,954
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	67	-	-	67
Transfers to other funds	(19)	(259)	(8)	(286)
Total Other Financing Sources (Uses)	48	(259)	(8)	(219)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	32,818	20,536	2,382	55,735
Fund Balances - Beginning of fiscal year	675,312	260,279	53,359	988,949
Fund Balances - End of fiscal year	\$ 708,129	\$ 280,815	\$ 55,740	\$ 1,044,685

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

Statutory/Budgetary Basis	MICHIGAN NATURAL RESOURCES TRUST FUND			MICHIGAN STATE PARKS ENDOWMENT FUND		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES AND OTHER SOURCES						
Miscellaneous	\$ 56,831	\$ 56,831	\$ -	\$ 46,737	\$ 46,737	\$ -
Proceeds from sale of capital assets	67	67	-	-	-	-
Total Revenues and Other Sources	56,898	56,898	-	46,737	46,737	-
EXPENDITURES, TRANSFERS OUT, AND ENCUMBRANCES - BY BRANCH, DEPARTMENT/AGENCY						
Military and Veterans Affairs	-	-	-	-	-	-
Natural Resources	45,298	42,770	2,528	28,242	28,060	182
Treasury	2,960	2,810	150	387	387	-
Total Expenditures, Transfers Out, and Encumbrances	48,258	45,580	2,678	28,629	28,447	182
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	\$ 8,640	11,318	\$ 2,678	\$ 18,108	18,290	\$ 182
Reconciling Items:						
Encumbrances at September 30		21,500			2,246	
Net Reconciling Items		21,500			2,246	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		32,818			20,536	
FUND BALANCES (GAAP BASIS)						
Beginning balances		675,312			260,279	
Ending balances (GAAP Basis)		\$ 708,129			\$ 280,815	

MICHIGAN VETERANS' TRUST FUND			TOTALS		
BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
\$ 4,344	\$ 4,344	\$ -	\$ 107,911	\$ 107,911	\$ -
-	-	-	67	67	-
4,344	4,344	-	107,979	107,979	-
5,200	1,899	3,301	5,200	1,899	3,301
-	-	-	73,540	70,830	2,710
63	63	-	3,410	3,260	150
5,263	1,962	3,301	82,150	75,989	6,161
\$ (920)	2,382	\$ 3,301	\$ 25,829	31,990	\$ 6,161
-	-	-	23,746	-	-
-	-	-	23,746	-	-
2,382	-	-	55,735	-	-
53,359	-	-	988,949	-	-
\$ 55,740	-	-	\$ 1,044,685	-	-



ENTERPRISE FUNDS

ATTORNEY DISCIPLINE SYSTEM

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

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

LIQUOR PURCHASE REVOLVING FUND

Michigan Compiled Laws (MCL) Section 436.1221 authorized the Liquor Control Commission, within the Department of Licensing and Regulatory Affairs, to maintain a revolving fund that is to be derived from the money deposited to the credit of the commission with the State Treasurer. Under State monopoly, liquor is sold at wholesale through a State controlled, privately operated distribution system. The fund accounts for the sales of and the replenishing and transporting of the liquor stock. Administrative, warehousing, and delivery costs are paid for through the fund. At the end of each fiscal year, the net income of the fund is transferred to the General Fund in accordance with MCL Section 18.1435.

COMBINING STATEMENT OF NET POSITION**ENTERPRISE FUNDS**

SEPTEMBER 30, 2016

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
ASSETS			
Current Assets:			
Cash	\$ 878	\$ -	\$ 879
Equity in common cash	-	80,479	80,479
Inventories	-	5,694	5,694
Investments	3,500	-	3,500
Other current assets	179	14,028	14,207
Total Current Assets	<u>4,558</u>	<u>100,202</u>	<u>104,759</u>
Capital Assets:			
Buildings and equipment	571	-	571
Allowance for depreciation	(538)	-	(538)
Total capital assets	<u>33</u>	<u>-</u>	<u>33</u>
Other noncurrent assets	<u>126</u>	<u>-</u>	<u>126</u>
Total Assets	<u>\$ 4,717</u>	<u>\$ 100,202</u>	<u>\$ 104,919</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 125</u>	<u>\$ 2,097</u>	<u>\$ 2,222</u>
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ -	\$ 1,168	\$ 1,168
Accounts payable and other liabilities	390	98,291	98,681
Amounts due to other funds	-	206	206
Unearned revenue	524	-	524
Current portion of other long-term obligations	-	639	639
Total Current Liabilities	<u>914</u>	<u>100,304</u>	<u>101,218</u>
Long-Term Liabilities:			
Noncurrent portion of other long-term obligations	<u>898</u>	<u>22,715</u>	<u>23,612</u>
Total Liabilities	<u>\$ 1,812</u>	<u>\$ 123,019</u>	<u>\$ 124,831</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 46</u>	<u>\$ 135</u>	<u>\$ 180</u>
NET POSITION			
Net investment in capital assets	\$ 33	\$ -	\$ 33
Unrestricted	<u>2,952</u>	<u>(20,855)</u>	<u>(17,903)</u>
Total Net Position	<u>\$ 2,985</u>	<u>\$ (20,855)</u>	<u>\$ (17,870)</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
OPERATING REVENUES			
Operating revenues	\$ 4,045	\$ 1,082,256	\$ 1,086,301
Total Operating Revenues	4,045	1,082,256	1,086,301
OPERATING EXPENSES			
Salaries, wages, and other administrative	5,007	81,601	86,608
Depreciation	12	-	12
Purchases for resale	-	790,348	790,348
Premiums and claims	-	4	4
Other operating expenses	-	818	818
Total Operating Expenses	5,019	872,771	877,790
Operating Income (Loss)	(974)	209,485	208,510
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	21	402	423
Other nonoperating expense	-	(131)	(131)
Total Nonoperating Revenues (Expenses)	21	271	292
Income (Loss) Before Transfers	(953)	209,756	208,803
TRANSFERS			
Transfers to other funds	-	(209,756)	(209,756)
Change in net position	(953)	-	(953)
Total net position - Beginning of fiscal year - restated	3,938	(20,855)	(16,916)
Total net position - End of fiscal year	\$ 2,985	\$ (20,855)	\$ (17,870)

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	ATTORNEY DISCIPLINE SYSTEM	LIQUOR PURCHASE REVOLVING FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ -	\$ 1,082,256	\$ 1,082,256
Membership dues	3,958	-	3,958
Payments to employees	(4,117)	(20,193)	(24,310)
Payments to suppliers	(823)	(840,527)	(841,351)
Other receipts	105	-	105
Other payments	(257)	(7,002)	(7,259)
Net cash provided (used)			
by operating activities	\$ (1,135)	\$ 214,534	\$ 213,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ -	\$ (209,756)	\$ (209,756)
Net cash provided (used)			
by noncapital financing activities	\$ -	\$ (209,756)	\$ (209,756)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (13)	\$ -	\$ (13)
Net cash provided (used) by capital and related financing activities	\$ (13)	\$ -	\$ (13)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investment securities	\$ 1,510	\$ -	\$ 1,510
Interest and dividends on investments	21	402	423
Net cash provided (used)			
by investing activities	\$ 1,531	\$ 402	\$ 1,933
Net cash provided (used) - all activities	\$ 383	\$ 5,180	\$ 5,563
Cash and cash equivalents			
at beginning of year	496	74,132	74,627
Cash and cash equivalents at end of year	<u>\$ 878</u>	<u>\$ 79,312</u>	<u>\$ 80,190</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Position Classifications:			
Cash	\$ 878	\$ -	\$ 879
Equity in common cash	-	80,479	80,479
Warrants outstanding	-	(1,168)	(1,168)
Cash and cash equivalents at end of year	<u>\$ 878</u>	<u>\$ 79,312</u>	<u>\$ 80,190</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (974)	\$ 209,485	\$ 208,510
Adjustments to Reconcile Operating Income to Net Cash Provided (Used)			
by Operating Activities:			
Depreciation expense	12	-	12
Pension expense	(20)	1,429	1,409
Deferred Outflows - contributions			
subsequent to measurement date	(114)	(1,903)	(2,018)
Other nonoperating expense	-	(131)	(131)
Other reconciling items	(2)	(903)	(905)
Net Changes in Assets and Liabilities:			
Inventories	-	(878)	(878)
Other assets (net)	24	(5,133)	(5,109)
Accounts payable and other liabilities	(67)	12,568	12,501
Unearned revenue	7	-	7
Net cash provided (used)			
by operating activities	<u>\$ (1,135)</u>	<u>\$ 214,534</u>	<u>\$ 213,399</u>

INTERNAL SERVICE FUNDS

CORRECTIONAL INDUSTRIES REVOLVING FUND

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

Executive Order 1992-13 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively. The minimum required payment was made in fiscal year 2016.

STATE SPONSORED GROUP INSURANCE FUND

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

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

INFORMATION TECHNOLOGY FUND

This fund was created by administrative decision to provide telecommunication and information technology services for State agencies. User agencies are billed for the cost of such services. During fiscal year 2002, the use of this fund was expanded to account for all information technology activities of the executive branch as prescribed in Executive Order 2001-03.

OFFICE SERVICES REVOLVING FUND

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

MOTOR TRANSPORT FUND

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

RISK MANAGEMENT FUND

Administratively established, this fund accounts for certain centralized risk management functions performed by the Department of Technology, Management and Budget for other State agencies. Currently, the fund has assumed a degree of risk for the automotive liability. This activity and administrative functions are recorded as operating activity of the fund. An activity of the fund for which the fund assumes no risk is the centralized processing of workers' compensation payments for State agencies. Workers' compensation long-term claim liabilities are recorded in the Government-wide Financial Statements and the related current year workers' compensation expenditures are recorded in the applicable funds.

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

SEPTEMBER 30, 2016

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
ASSETS			
Current Assets:			
Equity in common cash	\$ -	\$ 321,270	\$ 222
Amounts due from other funds	-	6,583	-
Amounts due from component units	-	39	-
Inventories	6,060	-	193
Other current assets	354	5,458	20,807
Total Current Assets	6,414	333,351	21,222
Capital Assets:			
Land and other non-depreciable assets	-	-	9,170
Buildings and equipment	23,628	-	1,367,065
Allowance for depreciation	(13,932)	-	(726,730)
Total capital assets	9,695	-	649,504
Other noncurrent assets	-	700	-
Total Assets	\$ 16,109	\$ 334,051	\$ 670,726
DEFERRED OUTFLOWS OF RESOURCES	\$ 907	\$ -	\$ 37,580
LIABILITIES			
Current Liabilities:			
Warrants outstanding	\$ 6	\$ 7	\$ 572
Accounts payable and other liabilities	340	21,680	89,309
Amounts due to other funds	2,157	-	3,650
Amounts due to component units	-	-	25
Interest payable	2,150	-	-
Unearned revenue	-	112	43,897
Current portion of other long-term obligations	433	36,709	29,336
Total Current Liabilities	5,087	58,508	166,788
Long-Term Liabilities:			
Advances from other funds	1,926	-	-
Unearned revenue	-	-	349,064
Noncurrent portion of other long-term obligations	9,546	93,602	457,364
Total Liabilities	\$ 16,559	\$ 152,109	\$ 973,217
DEFERRED INFLOWS OF RESOURCES	\$ 850	\$ -	\$ 8
NET POSITION			
Net investment in capital assets	\$ 12,745	\$ -	\$ 520,088
Restricted for other purposes	-	-	-
Unrestricted	(13,138)	181,942	(785,007)
Total Net Position	\$ (393)	\$ 181,942	\$ (264,919)

Michigan

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 15,227	\$ 7,280	\$ 12,971	\$ 356,971
-	2,065	-	8,648
-	-	-	39
2,973	346	-	9,572
3,683	1,700	1,500	33,503
<u>21,883</u>	<u>11,390</u>	<u>14,471</u>	<u>408,732</u>
-	-	-	9,170
15,874	8,895	-	1,415,461
(12,373)	(8,792)	-	(761,828)
<u>3,500</u>	<u>103</u>	<u>-</u>	<u>662,802</u>
-	-	50	750
<u>\$ 25,384</u>	<u>\$ 11,493</u>	<u>\$ 14,521</u>	<u>\$ 1,072,284</u>
<u>\$ 1,921</u>	<u>\$ 584</u>	<u>\$ 144</u>	<u>\$ 41,136</u>
\$ 4	\$ 2	\$ -	\$ 591
5,945	225	612	118,112
196	53	11	6,067
-	-	-	25
-	-	-	2,150
18	-	-	44,026
572	153	3,051	70,254
<u>6,735</u>	<u>433</u>	<u>3,674</u>	<u>241,225</u>
-	-	-	1,926
-	-	-	349,064
<u>19,578</u>	<u>5,205</u>	<u>5,532</u>	<u>590,828</u>
<u>\$ 26,313</u>	<u>\$ 5,639</u>	<u>\$ 9,206</u>	<u>\$ 1,183,043</u>
<u>\$ 98</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 956</u>
\$ 3,500	\$ 103	\$ -	\$ 536,436
-	7,755	-	7,755
(2,606)	(1,419)	5,459	(614,770)
<u>\$ 894</u>	<u>\$ 6,439</u>	<u>\$ 5,459</u>	<u>\$ (70,578)</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
OPERATING REVENUES			
Operating revenues	\$ 17,560	\$ 739,065	\$ 727,509
Total Operating Revenues	17,560	739,065	727,509
OPERATING EXPENSES			
Salaries, wages, and other administrative	6,387	20,514	660,122
Depreciation	635	-	73,705
Purchases for resale	-	-	-
Purchases for prison industries	6,244	-	-
Premiums and claims	-	703,586	1
Other operating expenses:	-	-	-
Leased vehicles expense	-	-	-
Vehicle maintenance expense	-	-	11
Total other operating expenses	-	-	11
Total Operating Expenses	13,266	724,100	733,838
Operating Income (Loss)	4,294	14,964	(6,329)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	-	946	-
Other nonoperating revenues	-	-	1,359
Interest expense	(16)	-	(352)
Other nonoperating expense	(1)	-	(3)
Total Nonoperating Revenues (Expenses)	(17)	946	1,004
Income (Loss) Before Transfers	4,277	15,910	(5,325)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Transfers to other funds	(119)	-	(7,179)
Total Transfers In (Out)	(119)	-	(7,179)
Change in net position	4,158	15,910	(12,504)
Total net position - Beginning of fiscal year - restated	(4,551)	166,032	(252,415)
Total net position - End of fiscal year	\$ (393)	\$ 181,942	\$ (264,919)

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
<u>\$ 95,754</u>	<u>\$ 66,651</u>	<u>\$ 4,942</u>	<u>\$ 1,651,480</u>
<u>95,754</u>	<u>66,651</u>	<u>4,942</u>	<u>1,651,480</u>
28,678	6,476	3,293	725,471
1,273	10	-	75,622
60,495	-	-	60,495
-	-	-	6,244
1	2,036	322	705,946
-	-	-	-
-	30,846	-	30,846
-	24,955	-	24,966
<u>-</u>	<u>55,801</u>	<u>-</u>	<u>55,812</u>
<u>90,447</u>	<u>64,324</u>	<u>3,615</u>	<u>1,629,591</u>
<u>5,306</u>	<u>2,327</u>	<u>1,327</u>	<u>21,890</u>
-	-	-	946
-	31	-	1,390
-	-	-	(368)
<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(6)</u>
<u>(2)</u>	<u>31</u>	<u>-</u>	<u>1,961</u>
5,304	2,358	1,327	23,851
<u>(204)</u>	<u>(68)</u>	<u>(31)</u>	<u>(7,600)</u>
<u>(204)</u>	<u>(68)</u>	<u>(31)</u>	<u>(7,600)</u>
5,100	2,290	1,296	16,251
<u>(4,206)</u>	<u>4,148</u>	<u>4,163</u>	<u>(86,829)</u>
<u>\$ 894</u>	<u>\$ 6,439</u>	<u>\$ 5,459</u>	<u>\$ (70,578)</u>

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	INFORMATION TECHNOLOGY FUND
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 17,490	\$ 736,644	\$ 826,301
Payments to employees	(5,984)	-	(229,061)
Payments to suppliers	(5,989)	(424,073)	(551,855)
Claims paid	-	(292,367)	-
Other receipts	-	-	-
Other payments	(2,914)	-	-
Net cash provided (used) by operating activities	\$ 2,603	\$ 20,203	\$ 45,386
CASH FLOWS FROM NONCAPITAL			
FINANCING ACTIVITIES			
Loans or loan repayments from other funds	\$ 2,065	\$ -	\$ -
Loans or loan repayments to other funds	(4,415)	-	-
Transfers to other funds	(119)	-	(7,179)
Net cash provided (used) by noncapital financing activities	\$ (2,469)	\$ -	\$ (7,179)
CASH FLOWS FROM CAPITAL AND RELATED			
FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (65)	\$ -	\$ (28,234)
Interest paid	(16)	-	-
Capital lease payments (including imputed interest expense)	-	-	(24,448)
Proceeds from sale of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	\$ (81)	\$ -	\$ (52,682)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	\$ -	\$ 946	\$ -
Net cash provided (used) by investing activities	\$ -	\$ 946	\$ -
Net cash provided (used) - all activities	\$ 54	\$ 21,148	\$ (14,475)
Cash and cash equivalents at beginning of year	(60)	300,115	14,125
Cash and cash equivalents at end of year	\$ (6)	\$ 321,263	\$ (350)
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Per Statement of Net Position Classifications:			
Equity in common cash	\$ -	\$ 321,270	\$ 222
Warrants outstanding	(6)	(7)	(572)
Cash and cash equivalents at end of year	<u>\$ (6)</u>	<u>\$ 321,263</u>	<u>\$ (350)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 4,294	\$ 14,964	\$ (6,329)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	635	-	73,705
Pension expense	(1,408)	-	33,036
Deferred Outflows - contributions subsequent to measurement date	(824)	-	(31,786)
Other reconciling items	(248)	-	1,166
Net Changes in Assets and Liabilities:			
Inventories	487	-	(42)
Other assets (net)	(73)	(1,869)	(12,205)
Accounts payable and other liabilities	(261)	7,101	19,630
Unearned revenue	-	7	98,754
Net cash provided (used) by operating activities	<u>\$ 2,603</u>	<u>\$ 20,203</u>	<u>\$ 175,930</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ 130,545
Capital lease liabilities entered into during the year	-	-	(130,545)
Gain (loss) on disposal of capital assets	(1)	-	-
Total noncash investing, capital, and financing activities	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>

OFFICE SERVICES REVOLVING FUND	MOTOR TRANSPORT FUND	RISK MANAGEMENT FUND	TOTALS
\$ 95,526	\$ 66,574	\$ 4,942	\$ 1,747,477
(11,148)	(3,441)	(803)	(250,437)
(78,624)	(63,088)	(2,501)	(1,126,131)
-	-	(1,984)	(294,352)
-	108	-	108
-	-	-	(2,914)
<u>\$ 5,754</u>	<u>\$ 153</u>	<u>\$ (347)</u>	<u>\$ 73,752</u>
\$ -	\$ 4,102	\$ -	\$ 6,167
-	(2,065)	-	(6,479)
<u>(204)</u>	<u>(68)</u>	<u>(31)</u>	<u>(7,600)</u>
<u>\$ (204)</u>	<u>\$ 1,970</u>	<u>\$ (31)</u>	<u>\$ (7,913)</u>
(223)	\$ -	\$ -	\$ (28,521)
-	-	-	(16)
-	-	-	(24,448)
<u>-</u>	<u>31</u>	<u>-</u>	<u>31</u>
<u>\$ (223)</u>	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ (52,953)</u>
\$ -	\$ -	\$ -	\$ 946
\$ -	\$ -	\$ -	\$ 946
\$ 5,328	\$ 2,154	\$ (377)	\$ 13,831
<u>9,895</u>	<u>5,125</u>	<u>13,349</u>	<u>342,549</u>
<u>\$ 15,223</u>	<u>\$ 7,279</u>	<u>\$ 12,971</u>	<u>\$ 356,380</u>
\$ 15,227	\$ 7,280	\$ 12,971	\$ 356,971
<u>(4)</u>	<u>(2)</u>	<u>-</u>	<u>(591)</u>
<u>\$ 15,223</u>	<u>\$ 7,279</u>	<u>\$ 12,971</u>	<u>\$ 356,380</u>
\$ 5,306	\$ 2,327	\$ 1,327	\$ 21,890
1,273	10	-	75,622
1,201	580	177	33,587
(1,762)	(464)	(93)	(34,928)
(94)	(23)	39	840
(394)	(14)	-	37
(120)	(491)	140	(14,619)
415	(1,772)	(1,937)	23,177
<u>(70)</u>	<u>-</u>	<u>-</u>	<u>98,691</u>
<u>\$ 5,754</u>	<u>\$ 153</u>	<u>\$ (347)</u>	<u>\$ 204,297</u>
\$ -	\$ -	\$ -	\$ 130,545
-	-	-	(130,545)
<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(4)</u>
<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4)</u>

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

STATE OF MICHIGAN 457 PLANS

This fund was established in accordance with Michigan Compiled Laws Section 38.1151 to account for deferred compensation plans that permit State of Michigan, Michigan Public School, and Education Achievement Authority employees to defer a portion of their income until future years. This fund also includes the State of Michigan 457 Personal Healthcare subfund created by Public Act 264 of 2011 for all employees hired after January 1, 2012 and those who opted out of the graded premium.

Prior to fiscal year 2016, this fund was titled the State of Michigan Deferred Compensation Funds and included a portion of the State of Michigan 401k Plan related to deferred compensation for State employees. Beginning with fiscal year 2016, this fund only includes amounts that are part of deferred compensation plans established in accordance with Section 457(b) of the Internal Revenue Code. This change occurred to improve comparability with the 457 Plan's separately issued financial statements.

LEGISLATIVE PENSION BENEFITS FUND

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

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

LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND

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

STATE POLICE PENSION BENEFITS FUND

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

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

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND

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

STATE EMPLOYEES' PENSION BENEFITS FUND

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

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

STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

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

PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND

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

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

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

PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND

This fund was established to account for other postemployment benefits of the Michigan Public School Employees' Retirement System (MPERS) created by Michigan Compiled Laws (MCL) Section 38.1321. MPERS's health plan provides all retirees with the option of receiving health, dental, and vision coverage.

Effective July 1, 2010, MCL Section 38.1343e requires employees to contribute a percentage of their compensation into a funding account established under the Public Employee Retirement Health Care Funding Act.

JUDGES' PENSION BENEFITS FUND

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

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

JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND

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

MILITARY PENSION BENEFITS FUND

This fund was established by Michigan Compiled Laws Section 32.706 and 32.801 to account for pension benefits of the Military Retirement System (MRS). MRS's pension plan provides retirement and survivor benefits to State of Michigan military officers and former members of the Michigan National Guard. Financing comes from investment earnings and legislative appropriations.

STATE OF MICHIGAN 401K PLANS

This fund was established in accordance with Michigan Compiled Laws Section 38.1151 as a defined contribution pension plan. Membership within the plan includes all State employees hired after March 31, 1997, Public School Reporting Units members hired after July 1, 2010, and for those members of the State Employees' Retirement (defined benefit) System, Judges' Retirement System, Legislative Retirement System, and Education Achievement Authority who elect to transfer to this plan. This fund also includes the State of Michigan 401k Personal Healthcare subfund created by Public Act 264 of 2011 for all employees hired after January 1, 2012, and those who opted out of the graded premium.

Prior to fiscal year 2016 this fund was titled the State of Michigan Defined Contribution Retirement Fund. Beginning with fiscal year 2016, this fund only includes amounts that are part of deferred compensation and defined contribution plans established in accordance with Section 401 of the Internal Revenue Code. This change occurred to improve comparability with the 401k Plan's separately issued financial statements.

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

SEPTEMBER 30, 2016

(In Thousands)

	STATE OF MICHIGAN 457 PLANS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ASSETS				
Equity in common cash	\$ 2,446	\$ 1,029	\$ 174	\$ 6,794
Receivables:				
From participants	10,361	-	-	21
From employer	-	-	-	4,213
Other	1,955	-	-	-
Interest and dividends	-	41	-	167
Due from other funds	-	86	-	-
Due from component unit	-	-	-	-
Due from other governmental	-	-	203	-
Sale of investments	-	607	-	-
Investments at Fair Value:				
Short-term investments	-	-	-	39,012
Fixed income	-	-	-	167,663
Domestic equities	-	45,449	7,955	332,748
Real estate	-	-	-	135,664
Alternative investments	-	13,851	2,416	-
Private equity pools	-	-	-	195,644
International equities	-	1,692	266	202,604
Absolute return	-	-	-	193,771
Mutual funds	215,035	68,517	11,950	-
Pooled investment funds	804,244	-	-	-
Separate accounts	867,537	-	-	-
Securities lending collateral	-	-	-	89,300
Total Assets	<u>\$ 1,901,579</u>	<u>\$ 131,271</u>	<u>\$ 22,964</u>	<u>\$ 1,367,601</u>
LIABILITIES				
Warrants outstanding	\$ -	\$ 3	\$ -	\$ 309
Accounts payable and other liabilities	3,169	661	3	44
Amounts due to other funds	5	6	-	-
Obligations under security lending	-	-	-	89,177
Unearned revenue	-	-	19	-
Total Liabilities	<u>\$ 3,174</u>	<u>\$ 669</u>	<u>\$ 22</u>	<u>\$ 89,530</u>
NET POSITION				
Restricted for pension, postemployment health-care, and deferred compensation participants	<u>\$ 1,898,405</u>	<u>\$ 130,602</u>	<u>\$ 22,942</u>	<u>\$ 1,278,071</u>

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ 4,030	\$ 34,426	\$ 39,416	\$ 130,002	\$ 25,649	\$ 1,819
-	353	-	1,595	-	19
2,661	58,978	37,248	237,027	64,184	53
597	-	14,053	14	137,952	5
14	1,423	191	5,568	566	35
-	11	-	-	-	-
-	377	340	-	-	-
1,555	-	41,115	-	-	-
-	-	-	-	-	-
2,135	353,905	36,967	1,406,212	678,233	7,096
14,676	1,438,272	199,014	5,691,196	567,209	33,566
29,131	2,853,533	394,937	11,292,978	1,125,763	66,624
11,879	1,163,825	160,980	4,605,048	459,185	27,156
-	-	-	-	-	-
17,110	1,675,685	232,086	6,635,193	661,605	39,139
17,740	1,737,107	240,496	6,877,766	685,510	40,576
16,963	1,661,890	230,019	6,577,887	655,485	38,812
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
7,817	766,766	106,621	3,034,672	301,675	18,214
<u>\$ 126,309</u>	<u>\$ 11,746,552</u>	<u>\$ 1,733,483</u>	<u>\$ 46,495,159</u>	<u>\$ 5,363,016</u>	<u>\$ 273,115</u>
\$ -	\$ 52	\$ 2	\$ 366	\$ 7	\$ -
1,793	446	25,214	996	229,570	16
-	-	-	-	-	-
7,806	765,712	106,475	3,030,498	301,260	18,189
-	-	10	2,720	-	-
<u>\$ 9,600</u>	<u>\$ 766,209</u>	<u>\$ 131,701</u>	<u>\$ 3,034,580</u>	<u>\$ 530,837</u>	<u>\$ 18,205</u>
<u><u>\$ 116,709</u></u>	<u><u>\$ 10,980,343</u></u>	<u><u>\$ 1,601,782</u></u>	<u><u>\$ 43,460,579</u></u>	<u><u>\$ 4,832,179</u></u>	<u><u>\$ 254,910</u></u>

This statement continued on next page.

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

SEPTEMBER 30, 2016

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	MILITARY PENSION BENEFITS FUND*	STATE OF MICHIGAN 401K PLANS	TOTALS*
ASSETS				
Equity in common cash	\$ 215	\$ 3,718	\$ 2,259	\$ 251,976
Receivables:				
From participants	-	-	151,298	163,647
From employer	5	3	-	404,372
Other	26	59	1,764	156,425
Interest and dividends	-	-	-	8,006
Due from other funds	-	-	-	96
Due from component unit	-	-	-	717
Due from other governmental	47	-	-	42,920
Sale of investments	-	-	-	607
Investments at Fair Value:				
Short-term investments	20	-	-	2,523,581
Fixed income	102	-	-	8,111,698
Domestic equities	202	-	-	16,149,322
Real estate	82	-	-	6,563,820
Alternative investments	-	-	-	16,267
Private equity pools	119	-	-	9,456,581
International equities	123	-	-	9,803,880
Absolute return	118	-	-	9,374,945
Mutual funds	-	-	717,633	1,013,134
Pooled investment funds	-	-	2,805,838	3,610,082
Separate accounts	-	-	1,455,416	2,322,953
Securities lending collateral	55	-	-	4,325,120
Total Assets	\$ 1,115	\$ 3,780	\$ 5,134,207	\$ 74,300,150
LIABILITIES				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 738
Accounts payable and other liabilities	30	189	262	262,391
Amounts due to other funds	-	-	5	16
Obligations under security lending	55	-	-	4,319,172
Unearned revenue	-	-	-	2,750
Total Liabilities	\$ 85	\$ 189	\$ 267	\$ 4,585,068
NET POSITION				
Restricted for pension, postemployment health-care, and deferred compensation participants	\$ 1,030	\$ 3,591	\$ 5,133,939	\$ 69,715,082

* Military Pension Benefits Fund reported amounts represent a nine month period from January 1, 2016 to September 30, 2016.



COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

	STATE OF MICHIGAN 457 PLANS	LEGISLATIVE PENSION BENEFITS FUND	LEGISLATIVE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE POLICE PENSION BENEFITS FUND
ADDITIONS				
Contributions:				
From participants	\$ 93,202	\$ 4	\$ 132	\$ 3,009
From employers	597	-	4,538	70,505
From other governmental	-	-	207	-
From other systems	1,435	-	-	-
Investment Income:				
Net increase (decrease) in the fair value of investments	130,574	9,026	1,476	65,880
Interest, dividends, and other	20,998	2,746	432	27,249
Securities lending income	-	-	-	2,245
Less Investment Expense:				
Investment activity expense	-	447	73	4,224
Securities lending expense	-	-	-	339
Net investment income (loss)	151,572	11,325	1,835	90,811
Miscellaneous income	1,063	166	626	10
Total Additions	247,868	11,494	7,338	164,336
DEDUCTIONS				
Benefits paid to participants or beneficiaries	62,826	14,004	-	119,081
Medical, dental, and life insurance for retirants	-	-	6,169	-
Refunds and transfers to other systems	71,165	73	-	13
Administrative and other expenses	6,363	405	66	573
Transfers to other funds	-	-	-	2
Total Deductions	140,354	14,482	6,235	119,670
Change in net position	107,514	(2,988)	1,102	44,666
Net position - Beginning of fiscal year - restated	1,790,891	133,590	21,840	1,233,405
Net position - End of fiscal year	\$ 1,898,405	\$ 130,602	\$ 22,942	\$ 1,278,071

STATE POLICE OTHER POSTEMPLOYMENT BENEFITS FUND	STATE EMPLOYEES' PENSION BENEFITS FUND	STATE EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' PENSION BENEFITS FUND	PUBLIC SCHOOL EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS FUND	JUDGES' PENSION BENEFITS FUND
\$ 1,161	\$ 46,666	\$ 38,661	\$ 398,893	\$ 382,257	\$ 805
45,157	716,465	617,662	2,308,657	883,943	2,138
2,191	-	68,990	-	2,411	-
-	3	-	-	-	-
5,359	566,541	74,335	2,242,089	210,285	13,390
2,222	235,243	30,354	930,325	86,451	5,506
182	19,106	2,456	77,899	7,306	460
341	36,444	4,669	143,909	13,371	858
26	2,917	356	11,710	1,026	72
7,396	781,528	102,120	3,094,694	289,644	18,425
104	120	199	484	159	56
56,009	1,544,782	827,633	5,802,728	1,558,414	21,426
-	1,289,598	-	4,671,300	15	23,302
32,668	-	498,166	-	653,071	-
-	130	4,190	26,997	93	-
1,402	6,595	25,606	26,019	156,358	335
-	34	-	194	-	-
34,070	1,296,357	527,962	4,724,510	809,538	23,637
21,939	248,425	299,671	1,078,218	748,877	(2,211)
94,770	10,731,918	1,302,111	42,382,361	4,083,302	257,121
\$ 116,709	\$ 10,980,343	\$ 1,601,782	\$ 43,460,579	\$ 4,832,179	\$ 254,910

This statement continued on next page.

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	JUDGES' OTHER POSTEMPLOYMENT BENEFITS FUND	MILITARY PENSION BENEFITS FUND*	STATE OF MICHIGAN 401K PLANS	TOTALS*
ADDITIONS				
Contributions:				
From participants	\$ 432	\$ -	\$ 179,820	\$ 1,145,043
From employers	154	6,790	205,883	4,862,490
From other governmental	93	-	-	73,892
From other systems	-	-	12,890	14,328
Investment Income:				
Net increase (decrease) in the fair value of investments	40	-	438,281	3,757,274
Interest, dividends, and other	17	11	37,311	1,378,867
Securities lending income	1	-	-	109,655
Less Investment Expense:				
Investment activity expense	3	-	-	204,340
Securities lending expense	-	-	-	16,448
Net investment income (loss)	56	11	475,592	5,025,009
Miscellaneous income	1	1	1,800	4,788
Total Additions	736	6,802	875,985	11,125,551
DEDUCTIONS				
Benefits paid to participants or beneficiaries	-	2,961	123,689	6,306,775
Medical, dental, and life insurance for retirants	459	-	-	1,190,533
Refunds and transfers to other systems	-	-	168,039	270,701
Administrative and other expenses	84	250	16,570	240,627
Transfers to other funds	-	-	-	230
Total Deductions	543	3,211	308,298	8,008,866
Change in net position	193	3,591	567,688	3,116,685
Net position - Beginning of fiscal year - restated	837	-	4,566,252	66,598,397
Net position - End of fiscal year	\$ 1,030	\$ 3,591	\$ 5,133,939	\$ 69,715,082

* Military Pension Benefits Fund reported amounts represent a nine month period from January 1, 2016 to September 30, 2016.

PRIVATE PURPOSE TRUST FUNDS

MICHIGAN EDUCATION SAVINGS PROGRAM

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

ESCHEATS FUND

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

GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND

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

HOSPITAL PATIENTS' TRUST FUND

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

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

SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	TOTALS
ASSETS					
Cash	\$ 190	\$ -	\$ 1,264	\$ 9	\$ 1,463
Equity in common cash	-	113,713	26,220	128	140,061
Receivables:					
Interest and dividends	3,306	-	57	-	3,363
Investments at Fair Value:					
Fixed income	-	-	16,898	-	16,898
Mutual funds	4,286,227	-	12	-	4,286,238
Guaranteed funding agreements	644,630	-	-	-	644,630
Other current assets	3,278	2,655	10,873	-	16,805
Other noncurrent assets	-	-	500	-	500
Total Assets	<u>\$ 4,937,631</u>	<u>\$ 116,368</u>	<u>\$ 55,824</u>	<u>\$ 136</u>	<u>\$ 5,109,959</u>
LIABILITIES					
Warrants outstanding	\$ -	\$ 6,030	\$ 277	\$ 8	\$ 6,315
Accounts payable and other liabilities	<u>7,138</u>	<u>2</u>	<u>7,184</u>	<u>6</u>	<u>14,330</u>
Total Liabilities	<u>\$ 7,138</u>	<u>\$ 6,032</u>	<u>\$ 7,461</u>	<u>\$ 14</u>	<u>\$ 20,645</u>
NET POSITION					
Restricted for other purposes	<u>\$ 4,930,493</u>	<u>\$ 110,336</u>	<u>\$ 48,364</u>	<u>\$ 122</u>	<u>\$ 5,089,314</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	MICHIGAN EDUCATION SAVINGS PROGRAM	ESCHEATS FUND	GIFTS, BEQUESTS, AND DEPOSITS INVESTMENT FUND	HOSPITAL PATIENTS' TRUST FUND	TOTALS
ADDITIONS					
Contributions:					
From participants	\$ 516,954	\$ -	\$ -	\$ -	\$ 516,954
From clients	-	-	43,676	645	44,321
From gifts, bequests, and endowments	-	-	29,537	-	29,537
Investment Income:					
Net increase (decrease) in the fair value of investments	297,147	-	275	-	297,422
Interest, dividends, and other	100,781	-	835	-	101,617
Net investment income (loss)	397,928	-	1,110	-	399,038
Escheated property	-	76,753	-	-	76,753
Miscellaneous income	-	-	1,808	-	1,808
Total Additions	914,882	76,753	76,132	645	1,068,411
DEDUCTIONS					
Benefits paid to participants or beneficiaries	356,720	-	-	-	356,720
Amounts distributed to clients, claimants, or third parties	-	90,513	76,104	639	167,257
Administrative expense	6,629	6,053	47	-	12,729
Total Deductions	363,349	96,566	76,152	639	536,706
Change in net position	551,533	(19,814)	(20)	6	531,705
Net position - Beginning of fiscal year	4,378,960	130,149	48,384	116	4,557,609
Net position - End of fiscal year	\$ 4,930,493	\$ 110,336	\$ 48,364	\$ 122	\$ 5,089,314

AGENCY FUNDS

ENVIRONMENTAL QUALITY DEPOSITS FUND

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

INSURANCE CARRIER DEPOSITS FUND

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

CITY INCOME TAX – TRUST FUND

Michigan Compiled Laws Sections 141.501 – 141.787 created the City Income Tax - Trust Fund and allows a city that imposes a city income tax, pursuant to the City Income Tax Act, to enter into an agreement with the Department of Treasury under which the Department of Treasury shall administer, enforce and collect the city income tax on behalf of the city. City income taxes, interest, penalties and collection fees collected under an agreement entered into pursuant to the above, shall be kept in the City Income Tax - Trust Fund and shall be paid to the city, except that an amount of the taxes collected as determined in the agreement may be retained by the Department of Treasury to cover the cost of collection and administration and that the amount shall be deposited into the State general fund.

CHILD SUPPORT COLLECTION FUND

This fund was administratively established to account for the activity of the Michigan State Disbursement Unit (MISDU). The MISDU, administered by the Department of Health and Human Services, was created to provide a single location within the State for the receipt and disbursement of child support payments.

SOCIAL WELFARE FUND

This fund was administratively created to provide a single location within the State for the receipts and disbursements related to county child care funds and local county funds. Participating counties provide funds to the Department of Health and Human Services (DHHS) on a quarterly basis to pay for court ward youth under DHHS supervision. DHHS uses the funds to pay for approved foster care individuals, private agencies, institutions, in-home care, and independent living based on receipt of child care invoices and supporting documentation.

COMBINING STATEMENT OF FIDUCIARY NET POSITION**AGENCY FUNDS**

SEPTEMBER 30, 2016

(In Thousands)

	ENVIRONMENTAL QUALITY DEPOSITS FUND	INSURANCE CARRIER DEPOSITS FUND	CITY INCOME TAX - TRUST FUND	CHILD SUPPORT COLLECTION FUND	SOCIAL WELFARE FUND	TOTALS
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ 40,192	\$ -	\$ 40,192
Equity in common cash	2,689	3,194	8,790	-	3,880	18,553
Other current assets	-	-	-	-	2	2
Other noncurrent assets	-	370,141	-	1	-	370,141
Total Assets	<u>\$ 2,689</u>	<u>\$ 373,335</u>	<u>\$ 8,791</u>	<u>\$ 40,193</u>	<u>\$ 3,883</u>	<u>\$ 428,889</u>
LIABILITIES						
Warrants Outstanding	\$ -	\$ -	\$ 985	\$ -	\$ 54	\$ 1,040
Accounts payable and other liabilities	2,689	3,194	7,805	38,623	3,828	56,139
Amounts due to other funds	-	-	-	1,570	-	1,570
Other long-term liabilities	-	370,141	-	-	-	370,141
Total Liabilities	<u>\$ 2,689</u>	<u>\$ 373,335</u>	<u>\$ 8,791</u>	<u>\$ 40,193</u>	<u>\$ 3,883</u>	<u>\$ 428,889</u>

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

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

	BALANCE OCTOBER 1, 2015	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2016
ENVIRONMENTAL QUALITY DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 2,737	\$ 155	\$ 204	\$ 2,689
Total Assets	<u>\$ 2,737</u>	<u>\$ 155</u>	<u>\$ 204</u>	<u>\$ 2,689</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,737	\$ 155	\$ 204	\$ 2,689
Total Liabilities	<u>\$ 2,737</u>	<u>\$ 155</u>	<u>\$ 204</u>	<u>\$ 2,689</u>
INSURANCE CARRIER DEPOSITS FUND				
ASSETS				
Equity in common cash	\$ 395	\$ 50,556	\$ 47,756	\$ 3,194
Other noncurrent assets	418,731	115,342	163,932	370,141
Total Assets	<u>\$ 419,125</u>	<u>\$ 165,898</u>	<u>\$ 211,688</u>	<u>\$ 373,335</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 395	\$ 50,556	\$ 47,756	\$ 3,194
Other long-term liabilities	418,731	115,342	163,932	370,141
Total Liabilities	<u>\$ 419,125</u>	<u>\$ 165,898</u>	<u>\$ 211,688</u>	<u>\$ 373,335</u>
CITY INCOME TAX - TRUST FUND				
ASSETS				
Equity in common cash	\$ -	\$ 33,778	\$ 24,988	\$ 8,790
Total Assets	<u>\$ -</u>	<u>\$ 33,779</u>	<u>\$ 24,988</u>	<u>\$ 8,791</u>
LIABILITIES				
Warrants outstanding	\$ -	\$ 16,907	\$ 15,922	\$ 985
Accounts payable and other liabilities	-	41,640	33,835	7,805
Total Liabilities	<u>\$ -</u>	<u>\$ 58,547</u>	<u>\$ 49,756</u>	<u>\$ 8,791</u>

	BALANCE OCTOBER 1, 2015	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 2016
CHILD SUPPORT COLLECTION FUND				
ASSETS				
Cash	\$ 41,133	\$ 1,493,979	\$ 1,494,920	\$ 40,192
Other current assets	1	-	1	1
Total Assets	<u>\$ 41,134</u>	<u>\$ 1,493,979</u>	<u>\$ 1,494,921</u>	<u>\$ 40,193</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 38,081	\$ 1,494,216	\$ 1,493,674	\$ 38,623
Amounts due to other funds	3,053	12,627	14,110	1,570
Total Liabilities	<u>\$ 41,134</u>	<u>\$ 1,506,843</u>	<u>\$ 1,507,784</u>	<u>\$ 40,193</u>
SOCIAL WELFARE FUND				
ASSETS				
Equity in common cash	\$ 1,482	\$ 19,822	\$ 17,424	\$ 3,880
Other current assets	5	2	5	2
Total Assets	<u>\$ 1,487</u>	<u>\$ 19,824</u>	<u>\$ 17,429</u>	<u>\$ 3,883</u>
LIABILITIES				
Warrants outstanding	\$ 23	\$ 11,235	\$ 11,204	\$ 54
Accounts payable and other liabilities	1,464	29,587	27,223	3,828
Total Liabilities	<u>\$ 1,487</u>	<u>\$ 40,822</u>	<u>\$ 38,427</u>	<u>\$ 3,883</u>
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 41,133	\$ 1,493,979	\$ 1,494,920	\$ 40,192
Equity in common cash	4,614	104,312	90,372	18,553
Other current assets	6	2	6	3
Other noncurrent assets	418,731	115,342	163,932	370,141
Total Assets	<u>\$ 464,484</u>	<u>\$ 1,713,635</u>	<u>\$ 1,749,230</u>	<u>\$ 428,889</u>
LIABILITIES				
Warrants outstanding	\$ 23	\$ 28,142	\$ 27,125	\$ 1,040
Accounts payable and other liabilities	42,678	1,616,154	1,602,692	56,139
Amounts due to other funds	3,053	12,627	14,110	1,570
Other long-term liabilities	418,731	115,342	163,932	370,141
Total Liabilities	<u>\$ 464,484</u>	<u>\$ 1,772,264</u>	<u>\$ 1,807,859</u>	<u>\$ 428,889</u>

COMPONENT UNITS – AUTHORITIES

FARM PRODUCE INSURANCE AUTHORITY

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

LAND BANK FAST TRACK AUTHORITY

Michigan Compiled Laws Section 124.765 created the Land Bank Fast Track Authority (LBFTA) to assemble or dispose of public property, including tax reverted property, in a coordinated manner to foster the development of the property and to promote economic growth within the State. LBFTA receives public properties, undertakes expedited action to clear their titles, and then ensures the properties' redevelopment.

MACKINAC BRIDGE AUTHORITY

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

MACKINAC ISLAND STATE PARK COMMISSION

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

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION

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

The governing body of each participant shall appoint one member of the Corporation Board to serve at the will of the participant. For each member of the Corporation Board appointed by the governing body of a participant, the Governor shall appoint up to two members of the Corporation Board representing the State to serve at the will of the Governor. If there are fewer than five Intermediate School District (ISD) participants, the Governor may appoint up to 12 additional members of the Corporation Board representing the State to serve at the will of the Governor or until there are five or more participating ISDs. In addition, the Corporation shall have an Executive Committee of 15 members, all appointed by the Governor. The committee shall exercise the powers of the Corporation.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

The Michigan Economic Development Corporation (MEDC), under Article 7, Section 28 of the State Constitution of 1963 and Sections 124.501 – 124.512 of the Michigan Compiled Laws (MCL), is a public body corporate. MEDC was created by a ten-year contract (interlocal agreement, as amended) between participating local economic development corporations formed under Sections 125.1601 – 125.1636 of the MCL and the Michigan Strategic Fund. Article VI of the interlocal agreement provides for the automatic renewal of this initial 10-year term for two renewal periods of five years each. In April 2014, this interlocal agreement was automatically renewed for another five years. MEDC is a separate legal entity whose purpose is to stimulate, coordinate and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 20 members appointed to eight-year, staggered terms.

MICHIGAN EDUCATION TRUST

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

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

STATE BAR OF MICHIGAN

The State Bar of Michigan is an association of lawyers who are licensed to practice in Michigan. It is organized as a public body corporate. Its operations are financed solely from member dues and income from member services. The State Bar's budget is the responsibility of its Board of Commissioners, and it is not subject to State of Michigan appropriation procedures.

Pursuant to Supreme Court rule, its purpose is to aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in this State.

VENTURE MICHIGAN FUND

The Venture Michigan Fund (VMF) was formed as a nonprofit corporation for the purpose of qualifying as a Michigan early stage venture investment corporation as authorized by Sections 125.2231 – 125.2263 of the Michigan Compiled Laws. VMF was organized to raise capital and invest that capital in venture capital firms with the intent of benefiting Michigan's seed or early stage businesses in order to promote the economic health of the State of Michigan. VMF is governed by a board of directors consisting of the State Treasurer, the Chief Executive Officer of the Michigan Economic Development Corporation, and five other directors appointed by the Governor with the advice and consent of the Senate.

COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS - AUTHORITIES
 SEPTEMBER 30, 2016
 (In Thousands)

	FARM PRODUCE INSURANCE AUTHORITY	LAND BANK FAST TRACK AUTHORITY	MACKINAC BRIDGE AUTHORITY	MACKINAC ISLAND STATE PARK COMMISSION
ASSETS				
Current Assets:				
Cash	\$ 176	\$ -	\$ 1,016	\$ 1,047
Equity in common cash	-	8,344	-	-
Amounts due from component units	-	4,180	-	-
Amounts due from primary government	-	-	-	-
Amounts due from federal government	-	2,524	-	-
Inventories	-	-	-	624
Investments	250	-	5,251	-
Other current assets	1,770	-	123	19
Total Current Assets	2,195	15,048	6,390	1,690
Restricted Assets:				
Cash and cash equivalents	-	-	-	1,096
Investments	-	-	-	2,438
Mortgages and loans receivable	-	5,900	-	-
Investments	2,253	-	75,914	-
Land and property held for resale	-	13,298	-	-
Capital Assets:				
Land and other non-depreciable assets	-	-	125	337
Buildings, equipment, and other depreciable assets	-	-	10,772	15,123
Less accumulated depreciation	-	-	(5,644)	(10,530)
Infrastructure	-	-	102,950	-
Total capital assets	-	-	108,203	4,930
Other noncurrent assets	-	-	-	-
Total Assets	\$ 4,448	\$ 34,246	\$ 190,507	\$ 10,154
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ 65	\$ 1,052	\$ 374
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ 158	\$ -	\$ -
Accounts payable and other liabilities	67	3,915	373	149
Amounts due to component units	-	-	-	-
Amounts due to primary government	-	7	1,214	-
Bonds and notes payable	-	-	-	55
Interest payable	-	-	-	19
Unearned revenue	-	-	1,143	-
Current portion of other long-term obligations	-	18	151	-
Total Current Liabilities	67	4,098	2,881	223
Unearned revenue	-	-	1,101	-
Bonds and notes payable	-	-	-	1,575
Noncurrent portion of other long-term obligations	-	474	7,277	2,550
Total Liabilities	\$ 67	\$ 4,572	\$ 11,259	\$ 4,347
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ 70	\$ -	\$ 16
NET POSITION				
Net investment in capital assets	\$ -	\$ -	\$ 108,203	\$ 3,300
Restricted For:				
Construction and debt service	-	-	-	2,869
Other purposes	-	6,460	-	1,058
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Unrestricted	4,381	23,208	72,098	(1,062)
Total Net Position	\$ 4,381	\$ 29,668	\$ 180,301	\$ 6,165

Michigan

MICHIGAN EARLY CHILDHOOD INVESTMENT CORPORATION	MICHIGAN ECONOMIC DEVELOPMENT CORPORATION	MICHIGAN EDUCATION TRUST	STATE BAR OF MICHIGAN	VENTURE MICHIGAN FUND	TOTALS
\$ 957	\$ 31,210	\$ 80,629	\$ 2,574	\$ 36,191	\$ 153,799
-	27,845	-	-	-	36,188
-	29,917	-	-	-	34,097
2,985	235	1,019	-	-	4,238
-	47	-	-	-	2,571
-	-	-	25	-	649
-	4,558	-	6,756	-	16,815
19	2,046	15,681	594	67	20,319
3,960	95,858	97,329	9,950	36,258	268,678
-	228	-	-	63,790	65,114
-	-	-	-	26,519	28,957
-	4,500	-	-	-	10,400
-	39,412	925,948	5,346	191,730	1,240,604
-	-	-	-	-	13,298
-	100	-	381	-	943
1,080	17,592	-	11,739	-	56,307
(877)	(11,079)	-	(7,759)	-	(35,890)
-	-	-	-	-	102,950
203	6,613	-	4,361	-	124,310
-	5,685	40,434	156	-	46,275
\$ 4,164	\$ 152,295	\$ 1,063,711	\$ 19,813	\$ 318,298	\$ 1,797,636
\$ -	\$ 2,346	\$ 75	\$ 42	\$ 34,837	\$ 38,791
\$ -	\$ 154	\$ -	\$ -	\$ -	\$ 312
2,642	12,500	-	1,050	229	20,923
-	4,189	-	-	-	4,189
-	404	-	-	-	1,625
-	-	-	-	-	55
-	-	-	-	4,289	4,307
-	-	-	1,377	-	2,520
19	879	80,954	-	-	82,021
2,662	18,126	80,954	2,426	4,518	115,953
-	-	-	-	-	1,101
-	-	-	-	309,714	311,289
-	17,756	889,464	274	35,232	953,028
\$ 2,662	\$ 35,882	\$ 970,418	\$ 2,701	\$ 349,464	\$ 1,381,371
\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 87
\$ 203	\$ 6,613	\$ -	\$ 4,361	\$ -	\$ 122,680
-	-	-	-	-	2,869
-	-	93,368	-	-	100,887
-	-	-	-	63,790	63,790
1,299	112,146	-	12,793	(60,119)	164,743
\$ 1,502	\$ 118,759	\$ 93,368	\$ 17,154	\$ 3,671	\$ 454,969

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2016
(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Farm Produce Insurance Authority	\$ 346	\$ 2,232	\$ -	\$ -	\$ 1,886
Land Bank Fast Track Authority	11,115	-	4,775	371	(5,968)
Mackinac Bridge Authority	10,729	22,726	-	-	11,997
Mackinac Island State Park Commission	4,827	4,785	71	140	169
Michigan Early Childhood Investment Corporation	14,988	-	14,932	-	(57)
Michigan Economic Development Corporation	86,930	91,954	-	-	5,024
Michigan Education Trust	29,750	634	87,996	-	58,880
State Bar of Michigan	12,324	11,901	-	164	(259)
Venture Michigan Fund	29,418	-	-	100,000	70,582
Total	<u>\$ 200,427</u>	<u>\$ 134,231</u>	<u>\$ 107,774</u>	<u>\$ 100,675</u>	<u>\$ 142,253</u>

GENERAL REVENUES					
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR RESTATED	NET POSITION END OF YEAR
\$ 28	\$ -	\$ -	\$ 1,914	\$ 2,468	\$ 4,381
31	-	12,679	6,741	22,927	29,668
2,282	-	-	14,279	166,022	180,301
53	-	-	222	5,943	6,165
-	-	81	24	1,478	1,502
2,593	5,000	3,994	16,611	102,148	118,759
-	-	-	58,880	34,488	93,368
105	-	-	(155)	17,308	17,154
23,784	-	-	94,366	(90,695)	3,671
<u>\$ 28,876</u>	<u>\$ 5,000</u>	<u>\$ 16,754</u>	<u>\$ 192,883</u>	<u>\$ 262,086</u>	<u>\$ 454,969</u>



COMPONENT UNITS – STATE UNIVERSITIES

The State has 13 legally separate public universities, 10 of which are included in this report as component units and 3 of which are excluded. Included are the 10 universities whose governing boards are appointed by the Governor and for which the State is legally accountable, as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 61. Excluded are those 3 that have governing boards whose members are elected by the voters and, therefore, considered separate special purpose governments. The 3 that are excluded are the largest public universities: Michigan State University, University of Michigan, and Wayne State University. Also excluded are the public community colleges, for which local units of government are legally accountable.

The information presented in this report for the 10 universities is based upon their separately issued financial statements for the fiscal year ended on June 30, 2016. The universities include Western Michigan University presented as a major component unit and the following non-major component units: 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, and Saginaw Valley State University.

COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES

JUNE 30, 2016

(In Thousands)

	CENTRAL MICHIGAN UNIVERSITY	EASTERN MICHIGAN UNIVERSITY	FERRIS STATE UNIVERSITY	GRAND VALLEY STATE UNIVERSITY
ASSETS				
Current Assets:				
Cash	\$ 35,227	\$ 17,392	\$ 33,117	\$ 51,663
Amounts due from component units	-	-	-	-
Amounts due from primary government	59,380	17,625	9,742	62,141
Amounts due from federal government	1,153	1,229	44	4,682
Amounts due from local units	-	-	-	-
Inventories	5,525	1,364	909	2,565
Investments	-	-	46,253	23,495
Other current assets	21,054	12,333	11,921	15,558
Total Current Assets	122,339	49,943	101,986	160,104
Restricted Assets:				
Cash and cash equivalents	-	24,500	-	1,086
Investments	-	73,437	24,804	-
Mortgages and loans receivable	-	-	18,024	-
Mortgages and loans receivable	-	7,896	-	7,320
Investments	335,044	21,215	78,840	247,201
Capital Assets:				
Land and other non-depreciable assets	13,709	11,725	6,597	71,608
Buildings, equipment, and other depreciable assets	850,500	777,114	457,666	912,086
Less accumulated depreciation	(405,134)	(336,852)	(192,884)	(317,866)
Construction in progress	87,946	11,728	6,193	45,158
Total capital assets	547,020	463,714	277,571	710,985
Other noncurrent assets	519	-	678	26,589
Total Assets	\$ 1,004,922	\$ 640,705	\$ 501,904	\$ 1,153,285
DEFERRED OUTFLOWS OF RESOURCES	\$ 19,725	\$ 9,646	\$ 8,487	\$ 30,666
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	\$ 74,193	\$ 39,202	\$ 19,064	\$ 77,552
Amounts due to primary government	1,228	16	-	76
Bonds and notes payable	5,420	2,680	5,980	15,195
Interest payable	1,578	2,453	1,155	1,314
Unearned revenue	12,370	17,542	7,683	20,911
Current portion of other long-term obligations	453	400	350	5,959
Total Current Liabilities	95,243	62,293	34,233	121,006
Unearned revenue	10	-	713	5,487
Bonds and notes payable	164,155	249,085	83,198	282,620
Noncurrent portion of other long-term obligations	144,848	140,132	132,602	49,281
Total Liabilities	\$ 404,256	\$ 451,510	\$ 250,746	\$ 458,393
DEFERRED INFLOWS OF RESOURCES	\$ 1,575	\$ 5,027	\$ -	\$ 3,526
NET POSITION				
Net investment in capital assets	\$ 378,536	\$ 163,475	\$ 179,624	\$ 419,647
Restricted For:				
Education	20,102	-	10,246	7,219
Construction and debt service	5,911	-	-	26,898
Other purposes	19	28,241	-	-
Funds Held as Permanent Investments:				
Expendable	19,463	-	14,809	39,316
Nonexpendable	53,090	48,760	24,804	60,309
Unrestricted	141,694	(46,663)	30,162	168,644
Total Net Position	\$ 618,816	\$ 193,814	\$ 259,645	\$ 722,032

Michigan

LAKE SUPERIOR STATE UNIVERSITY	MICHIGAN TECHNOLOGICAL UNIVERSITY	NORTHERN MICHIGAN UNIVERSITY	OAKLAND UNIVERSITY	SAGINAW VALLEY STATE UNIVERSITY	TOTALS
\$ 5,219	\$ 21,394	\$ 29,488	\$ 36,326	\$ 70,498	\$ 300,325
-	-	5	-	-	5
4,599	9,292	15,178	9,029	17,071	204,057
334	3,875	346	2,071	825	14,559
-	-	21	64	-	85
389	1,585	867	1,315	1,559	16,078
8,387	-	-	-	2	78,137
995	6,734	9,771	14,732	5,411	98,509
19,923	42,881	55,677	63,537	95,367	711,756
-	23,199	-	141,826	-	190,611
-	122,542	-	57,567	-	278,349
-	-	-	1,399	-	19,423
2,260	11,780	5,827	-	10	35,094
22,961	27,386	114,053	170,815	78,998	1,096,514
12,727	16,487	6,952	4,625	2,506	146,934
147,540	414,348	421,301	721,197	476,951	5,178,702
(108,745)	(196,978)	(184,679)	(253,255)	(178,805)	(2,175,200)
-	2,837	-	28,357	5,938	188,155
51,523	236,693	243,574	500,924	306,589	3,338,592
707	19,287	3,014	3,133	6,065	59,993
\$ 97,373	\$ 483,767	\$ 422,145	\$ 939,202	\$ 487,029	\$ 5,730,332
\$ 1,619	\$ 4,293	\$ 7,164	\$ 15,835	\$ 4,715	\$ 102,149
\$ 3,768	\$ 13,313	\$ 18,694	\$ 33,090	\$ 19,043	\$ 297,918
266	659	171	564	-	2,980
890	3,005	5,051	9,415	7,100	54,736
85	1,026	-	2,824	-	10,435
798	7,484	3,712	15,799	5,951	92,251
454	6,525	1,405	953	100	16,598
6,262	32,011	29,033	62,644	32,194	474,919
-	-	-	8,942	12,068	27,219
18,108	98,580	86,998	362,246	110,200	1,455,190
18,855	60,951	63,264	22,831	4,127	636,890
\$ 43,226	\$ 191,541	\$ 179,295	\$ 456,662	\$ 158,588	\$ 2,594,219
\$ 7	\$ -	\$ -	\$ 9,487	\$ -	\$ 19,622
\$ 33,058	\$ 155,580	\$ 153,107	\$ 262,726	\$ 191,954	\$ 1,937,707
15,802	42,356	3,087	22,993	14,942	136,747
1,657	1,479	-	-	287	36,232
3,047	-	-	-	2,190	33,497
-	27,370	20,418	14,568	-	135,943
10,394	87,220	10,779	26,925	52,693	374,975
(8,198)	(17,486)	62,623	161,674	71,090	563,539
\$ 55,759	\$ 296,519	\$ 250,014	\$ 488,887	\$ 333,155	\$ 3,218,641

COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - STATE UNIVERSITIES
 FISCAL YEAR ENDED JUNE 30, 2016
 (In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Central Michigan University	\$ 480,886	\$ 354,953	\$ 21,921	\$ 2,434	\$ (101,578)
Eastern Michigan University	363,962	229,007	15,436	-	(119,520)
Ferris State University	268,674	166,521	3,491	-	(98,662)
Grand Valley State University	444,883	330,720	22,573	1,413	(90,177)
Lake Superior State University	50,993	24,776	10,691	999	(14,527)
Michigan Technological University	243,560	124,910	62,807	1,374	(54,470)
Northern Michigan University	168,412	95,733	7,481	1,469	(63,728)
Oakland University	325,373	242,511	16,224	16	(66,622)
Saginaw Valley State University	142,058	99,354	13,651	-	(29,052)
Total	<u>\$ 2,488,801</u>	<u>\$ 1,668,484</u>	<u>\$ 174,275</u>	<u>\$ 7,705</u>	<u>\$ (638,337)</u>

GENERAL REVENUES					
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	CHANGE IN NET POSITION	NET POSITION BEGINNING OF YEAR RESTATED	NET POSITION END OF YEAR
\$ (3,918)	\$ 86,818	\$ 26,901	\$ 8,224	\$ 610,592	\$ 618,816
(21,217)	74,474	35,902	(30,361)	224,175	193,814
1,287	50,658	29,416	(17,302)	276,947	259,645
4,765	72,390	39,754	26,732	695,301	722,032
700	18,723	-	4,895	50,864	55,759
3,301	46,912	6,391	2,134	294,385	296,519
2,034	45,463	11,731	(4,501)	254,514	250,014
5,505	50,229	20,613	9,725	479,161	488,887
(3,601)	28,181	14,690	10,218	322,938	333,155
<u>\$ (11,144)</u>	<u>\$ 473,848</u>	<u>\$ 185,398</u>	<u>\$ 9,764</u>	<u>\$ 3,208,877</u>	<u>\$ 3,218,641</u>





STATISTICAL SECTION



Index
STATISTICAL SECTION

This part of the State of Michigan's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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SOURCES:

Unless otherwise noted, the information in these schedules is derived from the financial statements presented in the comprehensive annual financial reports for the relevant years.

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

(In Thousands)

(Accrual Basis of Accounting)

	2007	2008	2009	2010
Governmental activities				
Net investment in capital assets	\$ 15,739,094	\$ 15,909,317	\$ 16,313,696	\$ 16,859,070
Restricted	2,292,779	2,599,760	2,577,249	2,691,477
Unrestricted	(1,337,824)	(1,868,935)	(3,928,376)	(4,860,007)
Total governmental activities net position	<u>\$ 16,694,049</u>	<u>\$ 16,640,142</u>	<u>\$ 14,962,570</u>	<u>\$ 14,690,540</u>
Business-type activities				
Net investment in capital assets	\$ 367	\$ 807	\$ 735	\$ 603
Restricted	358,712	72,672	137,064	145,056
Unrestricted	4,798	(121,773)	(2,425,221)	(3,163,457)
Total business-type activities net position	<u>\$ 363,877</u>	<u>\$ (48,294)</u>	<u>\$ (2,287,423)</u>	<u>\$ (3,017,798)</u>
Primary government				
Net investment in capital assets	\$ 15,739,461	\$ 15,910,124	\$ 16,314,431	\$ 16,859,673
Restricted	2,651,490	2,672,432	2,714,313	2,836,533
Unrestricted	(1,333,025)	(1,990,708)	(6,353,597)	(8,023,463)
Total primary government net position	<u>\$ 17,057,926</u>	<u>\$ 16,591,848</u>	<u>\$ 12,675,147</u>	<u>\$ 11,672,743</u>
Reconciliation of net position				
Beginning net position	\$ 17,209,212	\$ 17,057,926	\$ 16,591,848	\$ 12,675,147
Restatement of beginning net position	-	(54,373)	(176,594)	-
Beginning net position - restated	17,209,212	17,003,554	16,415,254	12,675,147
Statement of Activities - changes in net position	(575,518)	(495,759)	(3,757,816)	(1,002,404)
Change in reporting entity	424,232	84,053	17,709	-
Ending net position	<u>\$ 17,057,926</u>	<u>\$ 16,591,848</u>	<u>\$ 12,675,147</u>	<u>\$ 11,672,743</u>

Michigan

2011	2012	2013	2014	2015	2016
\$ 17,782,073	\$ 18,198,345	\$ 19,649,694	\$ 20,279,584	\$ 20,578,869	\$ 21,162,152
3,552,062	3,394,212	3,773,962	3,824,871	3,647,713	3,772,413
(5,325,636)	(5,349,668)	(5,192,624)	(5,876,457)	(9,942,038)	(11,298,822)
<u>\$ 16,008,499</u>	<u>\$ 16,242,889</u>	<u>\$ 18,231,031</u>	<u>\$ 18,227,998</u>	<u>\$ 14,284,544</u>	<u>\$ 13,635,744</u>
\$ 578	\$ 355	\$ 813	\$ 606	\$ 1,557	\$ 1,257
131,453	1,276,713	1,843,965	2,442,471	2,989,561	3,526,823
(2,911,176)	5,926	5,538	5,834	(11,862)	(19,126)
<u>\$ (2,779,145)</u>	<u>\$ 1,282,994</u>	<u>\$ 1,850,316</u>	<u>\$ 2,448,910</u>	<u>\$ 2,979,255</u>	<u>\$ 3,508,953</u>
\$ 17,782,652	\$ 18,198,700	\$ 19,650,507	\$ 20,280,190	\$ 20,580,426	\$ 21,163,409
3,683,515	4,670,926	5,617,926	6,267,342	6,637,274	7,299,236
(8,236,812)	(5,343,743)	(5,187,086)	(5,870,623)	(9,953,900)	(11,317,949)
<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>	<u>\$ 20,081,347</u>	<u>\$ 20,676,909</u>	<u>\$ 17,263,800</u>	<u>\$ 17,144,696</u>
\$ 11,672,743	\$ 13,229,354	\$ 17,525,883	\$ 20,081,347	\$ 20,676,909	\$ 17,263,800
(5,377)	(2,954)	6,459	(36,068)	(4,780,332)	(1,712,198)
11,667,366	13,226,400	17,532,342	20,045,279	15,896,577	15,551,601
1,561,989	4,299,483	2,549,005	631,630	1,367,223	1,593,095
-	-	-	-	-	-
<u>\$ 13,229,354</u>	<u>\$ 17,525,883</u>	<u>\$ 20,081,347</u>	<u>\$ 20,676,909</u>	<u>\$ 17,263,800</u>	<u>\$ 17,144,696</u>

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

(In Thousands)

(Accrual Basis of Accounting)

	2007	2008	2009	2010
Expenses				
Governmental activities:				
General government	\$ 2,205,613	\$ 1,671,584	\$ 1,753,403	\$ 1,752,504
Education	14,660,163	15,080,883	15,251,821	14,989,964
Human services	4,453,497	4,699,046	5,410,078	6,136,852
Public safety and corrections	2,583,916	2,895,133	2,994,466	2,859,301
Conservation, environment, recreation, and agriculture	596,972	572,755	617,768	577,952
Labor, commerce, and regulatory	963,444	995,714	1,187,368	1,261,908
Health services	10,832,862	11,622,966	12,334,951	13,250,231
Transportation	3,191,784	3,235,394	3,244,824	2,947,845
Tax credits (Note 16)	883,400	931,600	963,500	1,351,500
Intergovernmental-revenue sharing	1,071,104	1,076,445	1,040,031	994,196
Interest on long-term debt	304,702	318,654	350,421	362,626
Total governmental activities	<u>41,747,457</u>	<u>43,100,174</u>	<u>45,148,632</u>	<u>46,484,880</u>
Business-type activities:				
Liquor Purchase Revolving Fund	602,280	621,991	633,093	634,925
State Lottery Fund	1,654,823	1,636,858	1,710,718	1,676,994
Attorney Discipline System	4,282	4,976	5,026	4,733
Michigan Unemployment Compensation Funds	2,012,082	2,403,043	6,215,392	6,803,393
Total business-type activities	<u>4,273,467</u>	<u>4,666,868</u>	<u>8,564,229</u>	<u>9,120,044</u>
Total primary government expenses	<u>\$ 46,020,924</u>	<u>\$ 47,767,042</u>	<u>\$ 53,712,861</u>	<u>\$ 55,604,924</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 1,195,965	\$ 737,401	\$ 768,411	\$ 775,018
Education	10,377	6,616	5,790	5,320
Human services	59,285	57,963	46,903	38,797
Public safety and corrections	164,345	168,789	157,751	168,141
Conservation, environment, recreation, and agriculture	185,978	282,008	254,128	360,261
Labor, commerce, and regulatory	312,983	304,145	306,657	313,368
Health services	72,338	79,683	84,647	72,036
Transportation	79,459	72,651	69,685	75,466
Operating grants and contributions	12,295,825	12,956,983	16,755,408	19,150,043
Capital grants and contributions	627,057	719,518	921,847	964,605
Total governmental activities program revenues	<u>\$ 15,003,612</u>	<u>\$ 15,385,756</u>	<u>\$ 19,371,229</u>	<u>\$ 21,923,056</u>
Business-type activities:				
Charges for services:				
Liquor Purchase Revolving Fund	\$ 742,959	\$ 768,085	\$ 781,896	\$ 780,265
State Lottery Fund	2,363,001	2,351,082	2,398,995	2,379,975
Attorney Discipline System	4,782	4,885	4,943	4,977
Michigan Unemployment Compensation Funds	1,765,871	1,998,292	3,922,144	6,012,375
Operating grants and contributions	55,783	44,262	104,154	79,966
Total business-type activities program revenues	<u>4,932,397</u>	<u>5,166,606</u>	<u>7,212,131</u>	<u>9,257,558</u>
Total primary government program revenues	<u>\$ 19,936,008</u>	<u>\$ 20,552,362</u>	<u>\$ 26,583,360</u>	<u>\$ 31,180,614</u>
Net (Expenses)/Revenues				
Governmental activities	\$ (26,743,845)	\$ (27,714,418)	\$ (25,777,403)	\$ (24,561,824)
Business-type activities	658,929	499,738	(1,352,097)	137,514
Total primary government net expenses	<u>\$ (26,084,916)</u>	<u>\$ (27,214,680)</u>	<u>\$ (27,129,501)</u>	<u>\$ (24,424,311)</u>

Michigan

2011	2012	2013	2014	2015	2016
\$ 2,286,436	\$ 2,491,270	\$ 2,093,352	\$ 2,455,999	\$ 3,240,918	\$ 3,044,493
15,269,638	14,601,171	14,617,662	14,941,366	15,452,338	15,831,480
6,423,345	5,953,946	5,931,424	5,508,011	5,259,337	5,005,580
2,863,890	2,816,575	2,663,440	2,638,272	2,685,500	2,664,726
575,118	657,527	593,446	714,019	609,306	753,361
1,178,970	956,357	965,696	956,256	953,030	746,550
13,917,219	13,722,762	13,853,422	15,036,289	17,931,541	18,435,832
2,460,553	2,840,961	2,914,884	3,309,442	3,325,519	3,377,660
1,271,900	1,226,300	689,900	676,500	662,400	672,400
1,091,527	1,032,243	1,077,514	1,120,593	1,210,557	1,213,432
217,014	196,040	178,561	174,522	162,859	415,468
47,555,610	46,495,152	45,579,303	47,531,269	51,493,305	52,160,983
660,861	696,723	742,611	779,276	825,796	872,902
1,631,489	1,654,234	1,758,718	1,868,607	1,990,582	2,229,995
4,941	4,818	4,846	4,798	4,710	5,019
4,350,158	2,991,500	2,188,132	1,246,507	952,773	914,081
6,647,450	5,347,275	4,694,307	3,899,188	3,773,861	4,021,996
\$ 54,203,060	\$ 51,842,428	\$ 50,273,610	\$ 51,430,457	\$ 55,267,166	\$ 56,182,979
\$ 790,054	\$ 844,661	\$ 678,845	\$ 688,044	\$ 666,648	\$ 658,741
5,491	15,688	7,206	9,388	(3,752)	6,947
34,810	69,219	38,648	85,213	85,532	85,953
166,034	158,707	164,019	161,447	163,821	169,789
266,062	269,307	271,119	299,073	301,529	296,694
316,941	548,543	750,517	754,054	749,576	788,169
90,558	59,850	69,009	67,298	77,236	69,323
92,045	91,690	96,842	96,727	100,403	105,108
19,608,970	17,373,332	17,194,905	17,981,852	20,431,030	20,660,821
1,061,715	845,873	867,155	850,174	926,670	878,642
\$ 22,432,679	\$ 20,276,870	\$ 20,138,265	\$ 20,993,270	\$ 23,498,693	\$ 23,720,187
\$ 812,140	\$ 856,717	\$ 912,112	\$ 957,054	\$ 1,021,890	\$ 1,082,256
2,357,417	2,430,281	2,491,131	2,608,920	2,785,133	3,118,137
5,114	5,166	4,887	4,867	4,024	4,045
4,441,664	3,529,515	2,776,790	1,809,854	1,461,988	1,383,410
172,038	251,786	21,710	59,881	67,628	78,660
7,788,373	7,073,466	6,206,631	5,440,576	5,340,663	5,666,507
\$ 30,221,052	\$ 27,350,336	\$ 26,344,896	\$ 26,433,845	\$ 28,839,356	\$ 29,386,694
\$ (25,122,932)	\$ (26,218,282)	\$ (25,441,038)	\$ (26,538,000)	\$ (27,994,612)	\$ (28,440,795)
1,140,924	1,726,190	1,512,324	1,541,388	1,566,801	1,644,511
\$ (23,982,008)	\$ (24,492,092)	\$ (23,928,714)	\$ (24,996,612)	\$ (26,427,810)	\$ (26,796,285)

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (Continued)

(In Thousands)

(Accrual Basis of Accounting)

	2007	2008	2009	2010
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
General:				
Sales and use	\$ 2,635,341	\$ 2,701,052	\$ 2,439,220	\$ 2,651,757
Personal income	5,321,169	6,229,339	4,639,740	4,931,508
Single business, Michigan business, and corporate income	1,771,854	1,715,861	1,372,597	1,107,589
Tobacco products	678,826	652,609	631,339	612,414
Beer, wine, and liquor	123,592	126,040	126,475	126,269
Insurance company	223,753	223,398	261,006	257,359
Quality assurance assessment	832,562	1,026,698	858,512	845,612
Penalties and interest	155,789	167,297	145,675	135,939
Other	334,097	320,484	244,166	239,425
Restricted For Educational Purposes:				
Sales and use	5,230,217	5,424,253	4,848,489	5,006,696
Personal income	2,142,251	2,174,393	1,855,533	1,756,587
Michigan business	-	341,000	669,341	604,395
Corporate income	-	-	-	-
Education, property, and real estate transfers	2,336,474	2,266,377	2,163,883	2,047,056
Tobacco products	449,912	427,303	410,590	392,113
Beer, wine, and liquor	35,730	37,120	37,717	37,476
Casino Gaming Wagering	106,681	112,067	108,080	101,816
Other	154,917	101,666	55,764	74,083
Restricted For Transportation Purposes:				
Sales and use	67,678	82,114	82,887	76,778
Gasoline and diesel fuel	1,016,957	992,502	970,794	956,999
Motor vehicle weight	874,287	854,736	839,648	841,840
Other	6,339	5,675	5,591	5,188
Unrestricted investment and interest earnings	12,097	7,595	4,911	1,464
Miscellaneous	1,378,751	739,602	568,855	495,556
Contributions to permanent fund principal	26,165	57,937	30,091	101,587
Transfers	943,460	927,763	905,523	882,287
Total governmental activities	<u>\$ 26,858,903</u>	<u>\$ 27,714,884</u>	<u>\$ 24,276,425</u>	<u>\$ 24,289,795</u>
Business-type activities:				
Taxes	13,133	13,663	14,093	14,107
Investment earnings	5,055	2,192	763	276
Miscellaneous	-	-	3,636	16
Transfers	(943,460)	(927,763)	(905,523)	(882,287)
Total business-type activities	<u>(925,273)</u>	<u>(911,909)</u>	<u>(887,031)</u>	<u>(867,889)</u>
Total primary government	<u>\$ 25,933,630</u>	<u>\$ 26,802,975</u>	<u>\$ 23,389,393</u>	<u>\$ 23,421,906</u>
Changes in Net Position				
Governmental activities	\$ 115,057	\$ 466	\$ (1,500,979)	\$ (272,029)
Business-type activities	(266,343)	(412,171)	(2,239,129)	(730,375)
Total primary government	<u>\$ (151,286)</u>	<u>\$ (411,705)</u>	<u>\$ (3,740,107)</u>	<u>\$ (1,002,404)</u>

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

Beginning in fiscal year 2012, a portion of the Corporate Income Tax was restricted for educational purposes.

Michigan

2011	2012	2013	2014	2015	2016
\$ 2,784,245 5,822,443	\$ 2,735,674 6,119,213	\$ 2,620,176 6,946,947	\$ 2,993,426 6,078,008	\$ 3,250,886 7,260,820	\$ 3,281,008 7,332,173
1,456,727	1,283,584	825,044	528,174	892,039	760,979
593,462	586,108	587,598	578,154	586,133	590,507
128,574	133,276	139,728	143,105	144,449	157,421
271,198	290,383	302,015	362,287	322,988	329,871
884,412	955,029	974,563	971,377	1,017,823	1,135,257
132,724	163,496	172,049	117,734	131,601	120,116
239,306	412,904	503,413	514,504	433,640	495,183
5,399,478	5,515,083	5,668,592	5,872,729	5,905,831	6,023,300
1,999,556	2,121,630	2,479,897	2,276,581	2,557,141	2,647,832
611,433	-	-	-	-	-
-	10,703	34,568	34,566	-	-
2,015,369	1,939,493	1,908,481	2,033,711	2,110,325	2,174,946
377,288	371,774	373,296	357,389	360,645	360,017
39,165	41,065	44,069	45,722	48,706	52,247
114,017	115,753	110,667	106,903	110,785	112,868
66,231	59,568	56,503	65,172	61,643	58,943
90,025	98,101	212,970	102,026	90,806	84,499
959,479	940,099	953,108	958,745	1,003,958	1,005,121
859,783	875,952	906,633	940,637	977,958	1,018,280
5,621	5,027	5,034	5,052	6,383	6,133
696	710	1,204	990	1,187	4,403
648,297	659,801	628,204	517,297	500,891	621,777
28,773	20,359	22,847	23,865	18,261	16,075
917,966	1,000,841	945,115	942,883	999,812	1,118,001
<u>\$ 26,446,268</u>	<u>\$ 26,455,626</u>	<u>\$ 27,422,722</u>	<u>\$ 26,571,035</u>	<u>\$ 28,794,710</u>	<u>\$ 29,506,957</u>
14,855	15,737	-	-	-	-
191	139	112	87	133	423
649	3,320,915	-	3	1	-
<u>(917,966)</u>	<u>(1,000,841)</u>	<u>(945,115)</u>	<u>(942,883)</u>	<u>(999,812)</u>	<u>(1,118,001)</u>
<u>(902,271)</u>	<u>2,335,949</u>	<u>(945,003)</u>	<u>(942,793)</u>	<u>(999,677)</u>	<u>(1,117,577)</u>
<u>\$ 25,543,997</u>	<u>\$ 28,791,575</u>	<u>\$ 26,477,719</u>	<u>\$ 25,628,241</u>	<u>\$ 27,795,033</u>	<u>\$ 28,389,380</u>
\$ 1,323,336	\$ 237,344	\$ 1,981,683	\$ 33,035	\$ 800,098	\$ 1,066,162
238,653	4,062,139	567,322	598,595	567,124	526,933
<u>\$ 1,561,989</u>	<u>\$ 4,299,483</u>	<u>\$ 2,549,005</u>	<u>\$ 631,630</u>	<u>\$ 1,367,223</u>	<u>\$ 1,593,095</u>

FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

(In Thousands)

(Modified Accrual Basis of Accounting)

	2007	2008	2009	2010
General Fund				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All Other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Fund				
Reserved	\$ 722,948	\$ 833,104	\$ 794,464	\$ 828,553
Unreserved	259,080	457,870	177,244	187,220
Total general fund	<u>\$ 982,028</u>	<u>\$ 1,290,974</u>	<u>\$ 971,708</u>	<u>\$ 1,015,773</u>
All Other Governmental Funds				
Reserved	\$ 1,945,448	\$ 1,968,781	\$ 1,941,203	\$ 2,048,256
Unreserved, reported in:				
Special revenue funds	689,356	483,130	605,513	379,140
Debt service funds	208,868	220,517	207,916	222,322
Capital projects funds	(239,869)	(238,718)	(182,786)	(161,980)
Permanent funds	41,361	54,791	40,473	75,486
Total all other governmental funds	<u>\$ 2,645,164</u>	<u>\$ 2,488,501</u>	<u>\$ 2,612,318</u>	<u>\$ 2,563,224</u>
Reconciliation of governmental fund balances				
Beginning fund balances	\$ 3,652,123	\$ 3,627,192	\$ 3,779,475	\$ 3,584,026
Restatement of beginning fund balances	-	-	-	-
Beginning fund balances - restated	3,652,123	3,627,192	3,779,475	3,584,026
Excess of revenues and other sources over				
(under) expenditures and other uses	35,653	131,789	(220,414)	(5,029)
Change in accounting entity	(60,583)	20,494	24,965	-
Ending fund balances	<u>\$ 3,627,192</u>	<u>\$ 3,779,475</u>	<u>\$ 3,584,026</u>	<u>\$ 3,578,997</u>

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

Michigan

2011	2012	2013	2014	2015	2016
\$ 267,289	\$ 237,955	\$ 221,614	\$ 189,095	\$ 115,937	\$ 76,746
351,551	364,497	376,977	383,025	395,945	467,486
463,685	805,402	933,666	998,674	1,108,240	1,378,378
67,021	68,583	137,947	206,875	176,405	151,555
553,746	979,205	1,186,647	306,382	694,734	604,388
<u>\$ 1,703,292</u>	<u>\$ 2,455,642</u>	<u>\$ 2,856,852</u>	<u>\$ 2,084,052</u>	<u>\$ 2,491,262</u>	<u>\$ 2,678,554</u>
\$ 929,077	\$ 951,453	\$ 968,433	\$ 992,581	\$ 1,016,322	\$ 1,030,282
2,269,086	2,086,927	2,200,564	2,250,773	1,989,423	2,048,762
137,910	196,931	322,056	547,466	352,699	289,534
(41,126)	(144,804)	(13,216)	(106,128)	(56,951)	(62,012)
<u>\$ 3,294,948</u>	<u>\$ 3,090,508</u>	<u>\$ 3,477,837</u>	<u>\$ 3,684,691</u>	<u>\$ 3,301,493</u>	<u>\$ 3,306,566</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,578,997	\$ 4,998,240	\$ 5,546,150	\$ 6,334,689	\$ 5,768,743	\$ 5,792,755
-	(15,602)	-	-	-	24,182
3,578,997	4,982,638	5,546,150	6,334,689	5,768,743	5,816,936
1,419,243	563,512	788,538	(565,945)	24,011	168,184
-	-	-	-	-	-
<u>\$ 4,998,240</u>	<u>\$ 5,546,150</u>	<u>\$ 6,334,689</u>	<u>\$ 5,768,743</u>	<u>\$ 5,792,755</u>	<u>\$ 5,985,120</u>

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(In Thousands)

(Modified Accrual Basis of Accounting)

	2007	2008	2009	2010
Revenues				
Taxes	\$ 24,370,884	\$ 26,075,135	\$ 23,348,354	\$ 23,174,824
From federal agencies	12,655,930	13,432,638	17,377,416	19,832,846
From local agencies	139,429	126,550	118,190	106,172
From services	284,370	291,380	288,877	300,992
From licenses and permits	444,841	441,407	454,981	458,303
Special Medicaid reimbursements	102,670	115,797	135,667	123,205
Miscellaneous	2,271,059	1,667,798	1,524,220	1,575,643
Total revenues	40,269,182	42,150,705	43,247,704	45,571,986
Expenditures				
General government	1,590,733	1,553,671	1,587,314	1,464,412
Education	14,664,715	15,094,266	15,249,946	15,051,983
Human services	4,447,992	4,609,481	5,334,263	6,042,987
Public safety and corrections	2,467,512	2,617,048	2,591,858	2,573,093
Conservation, environment, recreation, and agriculture	568,398	597,267	557,602	546,510
Labor, commerce, and regulatory	957,023	966,091	1,145,954	1,223,197
Health services	10,741,285	11,588,207	12,450,287	13,218,598
Transportation	2,178,923	2,338,907	2,195,721	2,279,890
Tax credits	883,400	931,600	963,500	1,351,500
Capital outlay	1,376,891	1,234,427	1,279,372	1,322,304
Intergovernmental - revenue sharing	1,071,104	1,076,445	1,040,031	994,196
Debt service:				
Bond principal retirement	238,789	228,261	215,380	247,532
Bond interest and fiscal charges	295,878	285,333	341,194	316,163
Capital lease payments	46,074	50,176	50,107	50,982
Total expenditures	41,528,716	43,171,179	45,002,530	46,683,346
Excess of revenues over (under) expenditures	(1,259,534)	(1,020,474)	(1,754,825)	(1,111,361)
Other Financing Sources (Uses)				
Bonds and bond anticipation notes issued	-	-	-	-
Bonds and notes issued	485,115	121,500	601,500	177,480
Refunding bonds issued	-	208,780	775,640	142,190
Premium on bond issuance	18,662	16,811	10,748	10,569
Discount on bond issuance	-	-	(4,263)	-
Payment to refunded bond escrow agent	(240,280)	(223,319)	(777,179)	(150,488)
Capital lease acquisitions	20,906	110,838	41,205	39,101
Proceeds from sale of capital assets	5,347	30,505	3,027	1,895
Transfers from other funds	2,826,854	2,697,131	2,603,766	2,834,719
Transfers to other funds	(1,882,002)	(1,789,489)	(1,695,068)	(1,949,134)
Total other financing sources (uses)	1,234,604	1,172,757	1,559,376	1,106,331
Net change in fund balances	\$ (24,930)	\$ 152,283	\$ (195,449)	\$ (5,029)
Debt service as a percentage of noncapital expenditures	1.4%	1.3%	1.4%	1.4%

Michigan

2011	2012	2013	2014	2015	2016
\$ 24,691,957	\$ 24,769,943	\$ 25,239,420	\$ 25,335,788	\$ 27,176,341	\$ 27,804,517
20,401,399	17,830,166	17,800,913	18,524,648	21,096,200	21,198,341
102,979	102,776	109,771	100,372	105,270	114,454
321,799	314,059	322,553	326,560	330,508	339,877
464,756	481,994	501,581	511,416	527,500	570,150
155,059	186,194	134,353	133,909	120,904	115,621
1,523,221	1,896,663	1,721,838	1,714,576	1,734,331	2,038,138
47,661,170	45,581,795	45,830,430	46,647,268	51,091,052	52,181,098
1,857,989	1,937,876	1,870,041	2,066,169	2,741,135	2,931,623
15,297,255	14,636,439	14,652,527	14,973,104	15,493,658	15,831,979
6,346,672	5,886,563	5,925,320	5,537,228	5,301,268	5,033,169
2,549,993	2,567,504	2,604,520	2,669,883	2,707,199	2,670,637
516,098	582,955	571,371	681,072	615,656	753,725
1,143,962	923,059	961,279	961,934	978,003	1,230,828
13,905,003	13,698,746	13,862,531	15,063,455	17,985,890	18,483,704
2,069,572	2,149,628	2,362,335	2,611,213	2,604,129	2,650,069
1,271,900	1,226,300	689,900	676,500	662,400	672,400
1,169,458	1,045,060	1,013,461	1,113,770	1,160,142	1,106,163
1,091,527	1,032,243	1,077,514	1,120,593	1,210,557	1,213,432
231,577	342,241	404,396	452,631	468,085	452,695
311,955	346,861	339,908	317,873	305,687	276,369
56,146	56,327	58,990	63,028	66,939	68,982
47,819,108	46,431,804	46,394,092	48,308,452	52,300,750	53,375,775
(157,938)	(850,008)	(563,662)	(1,661,184)	(1,209,697)	(1,194,677)
-	-	-	-	177,965	172,195
474,278	360,260	377,326	85,295	-	-
543,367	163,035	508,109	295,085	969,870	1,425,395
12,216	22,071	38,495	47,579	156,548	294,178
(150)	(1,339)	(14)	-	(298)	(2,773)
(549,296)	(172,223)	(537,743)	(299,121)	(1,107,996)	(1,674,399)
172,111	34,567	18,285	18,846	25,373	19,322
1,797	3,160	4,148	3,466	5,250	3,111
2,616,900	2,956,635	3,115,335	3,354,150	3,024,769	3,184,970
(1,694,043)	(1,952,646)	(2,171,741)	(2,410,062)	(2,017,772)	(2,059,139)
1,577,181	1,413,520	1,352,200	1,095,238	1,233,709	1,362,860
\$ 1,419,243	\$ 563,512	\$ 788,538	\$ (565,945)	\$ 24,011	\$ 168,184
1.3%	1.6%	1.8%	1.8%	1.6%	1.5%

PERSONAL INCOME BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2006	2007	2008
Farm earnings	\$ 1,067	\$ 1,174	\$ 1,496
Forestry, fishing, and related activities	330	301	269
Mining	781	747	1,193
Utilities	2,354	2,537	3,124
Construction	14,468	12,975	11,459
Manufacturing	49,703	48,527	45,714
Wholesale trade	12,659	13,016	13,243
Retail trade	15,458	15,417	15,244
Transportation and warehousing	7,134	7,332	7,129
Information	4,785	4,769	4,622
Finance and insurance	13,709	14,630	13,106
Real estate and rental and leasing	3,086	2,734	2,776
Professional, scientific, and technical services	23,178	23,742	24,064
Management of companies and enterprises	7,169	7,134	7,045
Administrative and waste services	11,492	11,221	11,084
Educational services	2,482	2,620	2,724
Health care and social assistance	27,557	28,708	30,097
Arts, entertainment, and recreation	2,457	2,261	2,365
Accommodation and food services	5,950	6,280	6,312
Other services, except public administration	9,162	9,235	9,013
Government and government enterprises	38,931	39,767	40,784
Total earnings by place of work	253,910	255,127	252,861
Total earnings by place of work	253,910	255,127	252,861
less: Contributions for government social insurance	29,754	30,190	30,239
plus: Adjustment for residence	1,349	1,612	1,741
Net earnings by place of residence	225,504	226,545	224,363
Net earnings by place of residence	225,504	226,545	224,363
plus: Dividends, interest, and rent	55,481	58,511	61,243
plus: Personal current transfer receipts	54,951	59,835	68,122
Total Personal Income	\$ 335,936	\$ 344,891	\$ 353,728
Statutory Tax Rate (blended rate)	3.9%	3.9%	4.4%

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

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

Industries are categorized using the North American Industry Classification System.

Fiscal year 2015 is the most recent year for which data is available.

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

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

Michigan

2009	2010	2011	2012	2013	2014	2015
\$ 1,059	\$ 1,410	\$ 2,579	\$ 1,990	\$ 2,353	\$ 1,786	\$ 1,568
286	314	305	359	358	428	475
858	885	1,240	1,184	1,113	1,213	1,101
2,920	2,867	2,705	2,714	2,773	2,908	2,923
10,097	9,714	9,951	11,310	12,475	13,530	14,712
37,483	36,185	39,520	43,152	44,005	44,780	47,091
12,360	12,245	13,304	14,065	14,580	15,162	15,858
14,644	14,607	15,138	15,496	15,739	16,227	17,073
6,523	6,399	6,763	7,120	7,381	7,753	8,232
4,653	4,463	4,432	4,498	4,714	5,038	5,102
12,017	13,020	12,600	12,492	12,771	12,928	13,674
3,165	3,644	4,467	5,475	6,285	6,516	6,993
21,968	21,333	23,556	25,190	27,102	28,826	30,833
6,418	6,129	6,480	6,563	6,955	7,476	7,904
10,140	10,330	11,350	12,032	12,336	12,672	13,133
2,867	2,925	2,926	3,098	3,151	3,308	3,410
31,195	32,018	32,637	33,434	33,794	34,308	35,586
2,174	2,096	1,943	1,922	2,038	2,085	2,114
6,034	6,041	6,444	7,196	7,597	7,874	8,346
9,038	9,280	9,545	10,032	10,016	10,265	10,710
41,199	42,414	41,627	40,776	40,753	40,524	40,999
237,098	238,317	249,511	260,095	268,287	275,606	287,836
237,098	238,317	249,511	260,095	268,287	275,606	287,836
28,738	28,541	27,124	27,427	31,141	32,955	34,205
1,567	1,558	1,702	1,854	1,923	2,029	2,126
209,927	211,334	224,089	234,523	239,069	244,680	255,757
209,927	211,334	224,089	234,523	239,069	244,680	255,757
54,662	50,482	57,427	61,236	66,158	70,493	73,742
75,092	81,594	82,740	82,156	83,179	85,590	90,345
\$ 339,681	\$ 343,410	\$ 364,256	\$ 377,915	\$ 388,406	\$ 400,763	\$ 419,844
4.4%	4.4%	4.4%	4.4%	4.3%	4.3%	4.3%

TAXABLE SALES BY INDUSTRY

LAST TEN FISCAL YEARS

(In Millions)

	2006	2007	2008	2009
Farming	\$ 78.5	\$ 73.6	\$ 70.4	\$ 57.1
Agricultural	270.7	250.3	240.4	226.6
Mining	192.5	183.4	180.2	118.8
Construction	782.3	706.4	695.9	565.0
Manufacturing	3,424.2	3,283.3	3,331.8	2,608.5
Transportation and utilities	11,715.5	12,091.0	12,650.3	12,708.7
Wholesale trade	3,400.5	2,881.0	3,031.4	2,516.5
Retail trade	83,382.5	83,464.8	86,572.7	78,680.5
Finance, insurance, and real estate	435.6	333.3	323.9	356.8
Services	6,215.0	6,483.1	6,426.7	5,696.8
State and local government	197.7	202.6	166.7	154.6
Other classifications	806.4	1,091.1	943.9	1,802.9
Total	<u>\$ 110,901.4</u>	<u>\$ 111,043.7</u>	<u>\$ 114,634.3</u>	<u>\$ 105,492.7</u>
Direct Sales Tax Rate	6.0%	6.0%	6.0%	6.0%

NOTES: Taxable sales were imputed from fiscal year sales tax cash collections by industry, and do not align with final reported revenue that includes accrual items.

Industries were categorized by using the Standard Industrial Classification through fiscal year 2014, and beginning in fiscal year 2015 using the North American Industry Classification System. The switch in classification system results in a significant increase reported by service firms and less reported by firms classified as retailers.

Fiscal year 2015 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

Michigan

2010	2011	2012	2013	2014	2015
\$ 56.1	\$ 58.5	\$ 61.7	\$ 69.4	\$ 79.2	\$ 32.6
211.8	216.2	238.1	254.3	349.8	330.0
116.2	145.7	156.1	136.2	152.1	139.2
497.3	534.1	601.6	617.9	665.3	1,064.1
2,645.7	2,738.4	3,131.6	3,514.0	3,435.2	5,593.7
12,041.1	12,860.4	12,412.4	12,763.8	11,567.7	11,447.0
2,426.9	2,861.1	2,727.9	2,652.0	2,574.0	5,136.3
80,195.7	85,484.6	90,639.0	94,582.1	93,964.6	79,923.2
193.0	254.6	263.4	355.8	386.7	1,901.3
5,405.8	5,831.0	6,092.7	6,223.3	6,412.5	16,925.4
240.0	93.3	178.5	187.3	187.6	323.6
1,007.5	1,048.7	1,290.4	1,255.7	1,433.4	1,677.0
<u>\$ 105,036.9</u>	<u>\$ 112,126.5</u>	<u>\$ 117,793.5</u>	<u>\$ 122,611.9</u>	<u>\$ 121,208.3</u>	<u>\$ 124,493.4</u>
6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL

TAX YEARS 2005 AND 2014

Adjusted Gross Income (AGI) Group	Tax Year 2005				Tax Year 2014			
	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax (In Millions)	Percentage of Total
\$50,000 and under	2,870,100	65.0%	\$ 467	9.5%	2,887,380	62.6%	\$ 672	9.1%
\$50,001 - \$100,000	1,019,339	23.1%	1,825	37.2%	1,021,890	22.2%	2,115	28.5%
\$100,001 - \$250,000	438,073	9.9%	1,689	34.4%	592,186	12.8%	2,718	36.6%
\$250,001 - \$1,000,000	87,135	2.0%	915	18.6%	93,186	2.0%	1,236	16.7%
\$1,000,001 and higher	573	0.0%	14	0.3%	14,428	0.3%	678	9.1%
Total	4,415,220	100.0%	\$ 4,911	100.0%	4,609,070	100.0%	\$ 7,419	100.0%

NOTES: Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's personal income tax revenue.

Tax year 2005 personal income tax amount refers to tax amount net of nonrefundable credits, and net of Home Heating Credits (HHC), Homestead Property Tax Credits (HPTC), Farmland Preservation, and Adoption Credits.

Tax year 2014 personal income tax amount refers to tax amount net of nonrefundable credits, and net of HHC, HPTC, Michigan Earned Income Tax, Farmland Preservation, and Historic Preservation Credits.

Tax year 2014 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

SALES TAX PAYERS BY INDUSTRY

FISCAL YEARS 2006 AND 2015

	2006				2015			
	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability (In Millions)	Percentage of Total
Farming	565	0.5%	\$ 4.7	0.1%	573	0.6%	\$ 2.0	0.0%
Agricultural	1,548	1.5%	16.2	0.3%	2,312	2.3%	19.8	0.3%
Mining	290	0.3%	11.5	0.2%	275	0.3%	8.4	0.1%
Construction	2,535	2.4%	46.9	0.7%	4,056	4.1%	63.8	0.9%
Manufacturing	6,346	5.9%	205.5	3.2%	16,231	16.3%	335.6	4.6%
Transportation and utilities	1,328	1.2%	565.4	8.7%	1,532	1.5%	521.8	7.1%
Wholesale trade	2,330	2.2%	204.0	3.1%	6,968	7.0%	308.2	4.2%
Retail trade	64,588	60.5%	5,003.0	76.8%	36,977	37.0%	4,795.4	65.7%
Finance, insurance, and real estate	477	0.5%	26.1	0.4%	2,960	3.0%	114.1	1.6%
Services	25,169	23.6%	372.9	5.7%	16,324	16.4%	1,015.5	13.9%
State and local government	319	0.3%	11.9	0.2%	61	0.1%	19.4	0.3%
Other classifications	1,298	1.2%	48.4	0.7%	11,557	11.6%	100.6	1.4%
Total	106,793	100.0%	\$ 6,516.6	100.0%	99,826	100.0%	\$ 7,304.6	100.0%

NOTES: Taxable sales were imputed from fiscal year sales tax cash collections by industry, and do not align with final reported revenue that includes accrual items.

Industries were categorized using the Standard Industrial Classification through fiscal year 2014 and beginning in fiscal year 2015 using the North American Industry Classification System. The switch in classification system results in a significant increase in tax reported by service firms and less reported by firms classified as retailers.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the State's sales tax revenue.

Fiscal year 2015 is the most recent year for which data is available.

SOURCE: Michigan Department of Treasury.

RATIOS OF OUTSTANDING DEBT BY TYPE**LAST TEN FISCAL YEARS**

(Dollars In Millions, except Per Capita)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES					TOTAL NET PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
	NET GENERAL OBLIGATION BONDS	NET REVENUE BONDS	NET STATE BUILDING AUTHORITY BONDS	NET CAPITAL LEASES				
2007	\$ 1,514.3	\$ 2,430.5	\$ 2,970.3	\$ 248.0	\$ 7,163.1	2.1%	\$ 716	
2008	1,496.6	2,352.6	2,997.4	320.0	7,166.6	2.0%	720	
2009	1,639.7	2,559.9	3,046.7	330.0	7,576.3	2.3%	765	
2010	1,649.6	2,455.2	3,084.5	345.0	7,534.3	2.2%	763	
2011	1,871.6	2,339.0	3,247.2	407.0	7,864.8	2.1%	796	
2012	1,998.4	2,317.3	3,171.7	416.0	7,903.4	2.1%	799	
2013	2,034.3	2,188.7	3,251.1	407.0	7,881.1	2.0%	796	
2014	1,988.6	2,065.8	3,165.2	394.0	7,613.6	1.9%	768	
2015	1,790.4	1,916.0	3,272.3	429.0	7,407.7	1.7%	747	
2016	1,700.4	1,798.5	3,289.0	527.0	7,314.9	Unavailable	Unavailable	

NOTES: Article 9, Section 15 of the State Constitution allows for long-term borrowing by the State for specific purposes in amounts as may be provided by acts of the Legislature adopted by a vote of two-thirds of the members in each house, and approved by a majority of the people voting at a general election. The debts of public bodies corporate and politic created by law are not general obligation debts and liabilities of the State. Details regarding the State's debt can be found in the bonds and notes payable note of the financial statements.

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

RATIOS OF NET GENERAL OBLIGATION BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

(Dollars In Millions, except Per Capita)

<u>FISCAL YEAR</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>LESS DEBT SERVICE FUNDS</u>	<u>NET BONDED GENERAL OBLIGATION BONDS</u>	<u>PERCENTAGE OF PERSONAL INCOME</u>	<u>PER CAPITA</u>
2007	\$ 1,487	\$ 1	\$ 1,486	0.4%	\$ 149
2008	1,487	1	1,486	0.4%	149
2009	1,673	1	1,672	0.5%	169
2010	1,680	1	1,678	0.5%	170
2011	1,889	1	1,888	0.5%	191
2012	2,018	1	2,017	0.5%	204
2013	2,048	1	2,046	0.5%	207
2014	1,942	2	1,941	0.5%	196
2015	1,734	2	1,733	0.4%	175
2016	1,625	2	1,623	Unavailable	Unavailable

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

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

	2007	2008	2009	2010
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,027.8	\$ 989.3	\$ 964.0	\$ 962.1
Registration Taxes	871.7	855.0	839.7	842.1
Miscellaneous Fees	35.7	36.2	33.0	33.8
Total	1,935.3	1,880.6	1,836.7	1,837.9
Less Deductions	137.9	138.3	137.2	138.1
Remaining Balance	1,797.4	1,742.3	1,699.5	1,699.9
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	164.7	159.9	155.3	155.2
Motor Vehicle Related Sales Tax Revenues	\$ 1,117.5	\$ 1,249.0	\$ 1,188.3	\$ 1,182.5
Allocation to Comprehensive Transportation Fund	67.7	82.1	82.9	76.8
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	\$ 232.4	\$ 242.0	\$ 238.2	\$ 232.0
Plus Other Revenues (primarily interest)	5.9	1.4	0.9	1.2
Money Available for Debt Service	\$ 238.3	\$ 243.5	\$ 239.1	\$ 233.2
Debt Service:				
Principal	\$ 20.2	\$ 21.3	\$ 7.5	\$ 10.1
Interest	12.9	12.0	10.4	10.5
Actual Annual Debt Service (1)	33.2	33.3	17.9	20.6
Debt Service Coverage	7.2 x	7.3 x	13.3 x	11.3 x

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

SOURCE: Michigan Department of Transportation.

2011	2012	2013	2014	2015	2016
\$ 957.7	\$ 945.9	\$ 950.9	\$ 958.8	\$ 1,003.8	\$ 1,011.0
859.7	876.1	906.5	940.6	978.1	1,018.3
34.2	35.0	36.1	37.4	38.8	40.6
1,851.5	1,857.0	1,893.5	1,936.8	2,020.7	2,069.9
137.4	138.0	133.2	135.3	143.5	144.7
1,714.1	1,719.0	1,760.4	1,801.5	1,877.2	1,925.2
156.7	157.0	161.4	165.5	172.5	176.9
\$ 1,290.7	\$ 1,406.5	\$ 1,476.3	\$ 1,462.7	\$ 1,301.9	\$ 1,211.5
90.0	98.1	103.0	102.0	90.8	84.5
\$ 246.7	\$ 255.1	\$ 264.4	\$ 267.5	\$ 263.3	\$ 261.4
1.0	0.6	1.1	1.1	1.5	6.4
\$ 247.8	\$ 255.8	\$ 265.4	\$ 268.6	\$ 264.8	\$ 267.9
\$ 10.2	\$ 14.0	\$ 13.9	\$ 14.5	\$ 15.9	\$ 16.5
10.0	9.3	8.6	7.9	7.3	6.2
20.1	23.4	22.4	22.4	23.2	22.7
12.3 x	10.9 x	11.8 x	12.0 x	11.4 x	11.8 x

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

	2007	2008	2009	2010
Constitutionally Restricted				
Transportation Fund Revenues:				
Motor Fuel Taxes	\$ 1,027.8	\$ 989.3	\$ 964.0	\$ 962.1
Registration Taxes	871.7	855.0	839.7	842.1
Miscellaneous Fees	35.7	36.2	33.0	33.8
Total	1,935.3	1,880.6	1,836.7	1,838.0
Less Deductions:				
Local Bridge Debt Service	2.8	2.8	2.8	3.3
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Collection Costs	46.2	48.1	47.8	47.9
Recreation Improvement Fund	17.6	16.9	16.6	16.7
Comprehensive Transportation Fund (excluding interest)	164.7	159.9	155.3	155.2
Local Program Fund	33.0	33.0	33.0	33.0
Movable Bridge Fund	-	-	-	-
Local Agency Wetlands Mitigation Fund	-	-	-	-
Local Bridge Fund	28.3	27.5	27.0	27.2
Economic Development Fund	40.3	40.3	40.3	40.3
Total Deductions	375.9	371.5	365.7	366.6
Constitutionally Restricted Revenues				
Available for Distribution	1,559.4	1,509.1	1,471.0	1,471.4
Plus Other Revenues (primarily interest)	8.2	9.0	2.3	2.2
Total Money Available for Distribution	1,567.5	1,518.0	1,473.3	1,473.6
Distributions to:				
Cities and Villages	342.8	332.1	322.4	322.4
County Road Commissions	599.7	580.9	563.7	563.8
State Trunkline Fund	625.0	605.0	587.2	587.4
Money Available for Debt Service:				
State Trunkline Fund	625.0	605.0	587.2	587.4
Legally Dedicated State Trunkline Fund Debt Service	43.0	43.0	43.0	43.0
Economic Development Fund	40.3	40.3	40.3	40.3
Local Program Fund	33.0	33.0	33.0	33.0
Local Bridge Fund	2.8	2.8	2.8	3.3
Miscellaneous (1)	-	40.5	27.1	36.4
Total Available for Debt Service	744.1	764.6	733.3	743.4
Debt Service:				
Principal	\$ 20.0	\$ 43.5	\$ 45.6	\$ 79.2
Interest	84.8	91.5	90.1	80.9
Actual Annual Debt Service (2)	104.8	135.0	135.7	160.1
Debt Service Coverage	7.1 x	5.7 x	5.4 x	4.6 x

NOTES:

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

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

SOURCE: Michigan Department of Transportation.

Michigan

2011	2012	2013	2014	2015	2016
\$ 957.7	\$ 945.9	\$ 950.9	\$ 958.8	\$ 1,003.8	\$ 1,011.0
859.7	876.1	906.5	940.6	978.1	1,018.3
34.2	35.0	36.1	37.4	38.8	40.6
1,851.5	1,857.0	1,893.5	1,936.8	2,020.7	2,069.9
3.3	3.3	3.0	2.4	2.3	2.4
43.0	43.0	43.0	43.0	43.0	43.0
47.8	48.6	43.9	46.4	53.2	53.1
16.5	16.4	16.4	16.5	17.2	17.6
156.7	157.0	161.4	165.5	172.5	176.9
33.0	33.0	33.0	33.0	33.0	33.0
-	-	-	-	-	5.0
-	-	-	-	-	2.0
26.9	26.8	26.8	26.9	27.8	28.5
40.3	40.3	40.3	40.3	40.3	40.3
367.4	368.4	367.8	374.1	389.3	401.9
1,484.1	1,488.6	1,525.7	1,562.8	1,631.5	1,668.0
0.6	1.2	1.1	1.1	1.4	2.4
1,484.7	1,489.8	1,526.8	1,563.8	1,632.9	1,670.4
324.6	326.0	334.2	342.3	357.2	365.9
568.4	569.3	584.5	598.9	625.4	639.6
591.7	592.5	607.7	622.6	650.3	664.9
591.7	592.5	607.7	622.6	650.3	664.9
43.0	43.0	43.0	43.0	43.0	43.0
40.3	40.3	40.3	40.3	40.3	40.3
33.0	33.0	33.0	33.0	33.0	33.0
3.3	3.3	3.0	2.4	2.3	2.4
39.5	35.4	133.0	35.7	26.4	31.8
750.7	747.4	860.1	777.0	795.4	815.4
\$ 82.6	\$ 86.3	\$ 88.5	\$ 106.5	\$ 111.4	\$ 116.4
77.5	75.6	73.2	59.2	48.7	45.8
160.1	161.9	161.8	165.7	160.1	162.2
4.7 x	4.6 x	5.3 x	4.7 x	5.0 x	5.0 x

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

	2007	2008	2009	2010
Revenue - Lease and Rental Payments	\$ 213.2	\$ 219.4	\$ 230.4	\$ 230.1
Less: Operating Expenses	<u>0.8</u>	<u>0.8</u>	<u>1.1</u>	<u>1.6</u>
Net Available Revenue	<u>212.4</u>	<u>218.6</u>	<u>229.3</u>	<u>228.5</u>
Debt Service:				
Principal	\$ 83.6	\$ 87.1	\$ 100.5	\$ 96.1
Interest	<u>117.5</u>	<u>123.4</u>	<u>122.2</u>	<u>120.0</u>
Actual Annual Debt Service (1)	201.1	210.5	222.7	216.1
Debt Service Coverage	1.1 x	1.0 x	1.0 x	1.1 x

NOTE: (1) The table above excludes amounts related to refunded bonds.

2011	2012	2013	2014	2015	2016
\$ 233.1	\$ 234.3	\$ 234.4	\$ 231.0	\$ 230.9	\$ 224.4
1.4	1.6	1.3	1.1	1.0	0.8
<u>231.7</u>	<u>232.7</u>	<u>233.1</u>	<u>229.9</u>	<u>229.9</u>	<u>223.6</u>
\$ 128.9	\$ 96.2	\$ 126.6	\$ 102.2	\$ 139.5	\$ 108.8
122.5	121.0	124.8	118.5	121.7	117.3
<u>251.4</u>	<u>217.2</u>	<u>251.4</u>	<u>220.6</u>	<u>261.2</u>	<u>226.1</u>
0.9 x	1.1 x	0.9 x	1.0 x	0.9 x	1.0 x

DEMOGRAPHIC AND ECONOMIC INDICATORS

LAST TEN CALENDAR YEARS

	2006	2007	2008	2009
Population (a)				
(in thousands)				
Michigan	10,036	10,001	9,947	9,902
United States	298,380	301,231	304,094	306,772
Total Personal Income (b)				
(in billions)				
Michigan	\$ 337.6	\$ 347.0	\$ 354.5	\$ 336.3
United States	\$ 11,381.4	\$ 11,995.4	\$ 12,492.7	\$ 12,079.4
Per Capita Income (b)				
Michigan	\$ 33,638	\$ 34,691	\$ 35,644	\$ 33,966
United States	\$ 38,144	\$ 39,821	\$ 41,082	\$ 39,376
Unemployment Rate (c)				
Michigan	7.0%	7.0%	8.0%	13.7%
United States	4.6%	4.6%	5.8%	9.3%
Michigan estimated wage and salary employees (c)				
(in thousands)				
Goods Producing:				
Mining and Logging	8.0	7.7	7.9	6.9
Construction	178.4	166.7	153.5	127.6
Manufacturing	637.7	607.6	562.7	454.9
Total Goods Producing	824.1	782.0	724.0	589.4
Service-Providing:				
Private Service-Providing				
Trade, Transportation, and Utilities:				
Wholesale Trade	170.6	169.0	167.8	152.9
Retail Trade	496.0	489.7	478.1	451.4
Transportation and Utilities	128.4	128.3	124.5	112.9
Information	63.9	62.9	60.2	56.3
Financial Activities:				
Finance and Insurance	158.9	156.2	149.9	142.6
Real Estate and Rental and Leasing	54.9	53.3	52.0	48.8
Professional and Business Services:				
Professional, Scientific, and Technical Services	257.9	257.4	254.7	230.6
Management of Companies and Enterprises	63.9	58.9	55.6	49.9
Administrative, Support Services, and Waste Management	275.1	274.5	262.8	229.5
Educational and Health Services:				
Educational Services	76.1	78.7	80.5	79.2
Health Care and Social Assistance	507.2	518.0	526.9	530.1
Leisure and Hospitality:				
Accommodation and Food Services	352.3	351.5	345.6	330.8
Other	54.5	55.5	54.3	50.9
Other Services	177.5	176.6	175.6	168.8
Total Private Service-Providing	2,837.4	2,830.5	2,778.4	2,634.6
Government	665.3	655.7	650.0	646.8
Total Service-Providing	3,502.7	3,486.2	3,438.4	3,281.4
Total Wage and Salary Employment	4,326.8	4,268.1	4,162.5	3,870.8

NOTES: Wage and Salary Employment based on North American Industry Classification System.

Components in Wage and Salary Employment may not total due to truncation.

Calendar year 2015 is the most recent year for which data is available.

SOURCES:

(a) U.S. Census Bureau, Population Division.

(b) U.S. Department of Commerce, Bureau of Economic Analysis.

(c) Michigan Department of Technology, Management and Budget and U.S. Department of Labor, Bureau of Labor Statistics.

Michigan

2010	2011	2012	2013	2014	2015
9,877	9,877	9,887	9,901	9,916	9,923
309,347	311,719	314,103	316,427	318,907	321,419
\$ 347.7	\$ 369.4	\$ 382.6	\$ 388.2	\$ 406.0	\$ 424.8
\$ 12,459.6	\$ 13,233.4	\$ 13,904.5	\$ 14,069.0	\$ 14,801.6	\$ 15,464.0
\$ 35,204	\$ 37,398	\$ 38,700	\$ 39,208	\$ 40,940	\$ 42,812
\$ 40,277	\$ 42,453	\$ 44,267	\$ 44,462	\$ 46,414	\$ 48,112
12.6%	10.4%	9.1%	8.8%	7.3%	5.4%
9.6%	8.9%	8.1%	7.4%	6.2%	5.3%
7.1	7.4	7.8	8.0	8.3	7.7
121.6	125.3	128.2	133.5	141.8	147.9
466.0	501.4	529.2	546.6	571.8	587.3
594.7	634.1	665.2	688.2	721.8	742.9
150.7	155.0	159.5	163.6	167.3	170.4
446.5	448.6	449.3	455.3	461.4	465.9
113.5	118.2	121.5	125.2	129.9	134.3
54.8	53.2	53.3	55.3	57.5	56.7
139.8	144.2	148.3	153.5	153.7	155.7
48.3	48.9	48.2	49.4	50.6	51.4
231.9	245.0	258.1	270.0	279.3	287.9
49.8	52.3	53.8	55.8	56.9	59.0
242.4	265.7	277.7	286.9	288.9	292.1
77.3	73.5	73.3	74.1	74.4	75.3
534.5	548.2	559.0	565.3	568.7	576.4
329.0	332.8	341.9	350.3	357.5	363.5
48.6	47.7	46.9	47.9	49.0	49.8
166.3	167.3	169.3	170.5	169.5	168.1
2,633.3	2,700.6	2,759.9	2,823.0	2,864.4	2,906.5
635.6	617.4	608.5	598.6	595.7	594.3
3,268.9	3,318.0	3,368.4	3,421.6	3,460.2	3,500.8
3,863.6	3,952.1	4,033.7	4,109.7	4,182.0	4,243.7

CLASSIFIED EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	2007	2008	2009	2010
General government	7,264	7,347	7,328	6,995
Education	369	380	405	445
Human services	9,759	9,582	10,168	10,414
Public safety and corrections	19,948	19,451	19,310	18,388
Conservation, environment, recreation, and agriculture	3,586	3,439	3,466	3,359
Labor, commerce, and regulatory	3,967	3,781	4,056	4,298
Health services	4,225	3,964	4,075	3,873
Transportation	2,895	2,854	2,892	2,844
Total	52,013	50,799	51,699	50,615

NOTES: This report reflects classified employees who are full-time, part-time, permanent intermittent, limited term, seasonal, non-career, or on worker's compensation in primary positions only, except for the following non-career appointments: student assistant, transportation aide, and state worker.

Each fiscal year in this schedule also includes approximately 2,000 classified employees for the business-type activities and discretely presented component unit authorities. Although the expenses for the business-type activities and component unit authorities are reported separately in the government-wide financial statements, the employee counts were combined in this schedule to ensure consistency with the Civil Service Commission reports and for administrative efficiency.

This schedule includes average employee counts. Employees who job share are divided in half. For this reason, totals may not equal the sum of the employee counts per function.

SOURCE: Michigan Civil Service Commission, Annual Work Force Report.

Michigan

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
6,510	7,026	7,273	7,377	6,888	7,016
446	476	518	518	515	507
10,499	11,052	11,772	11,388	10,954	10,747
17,508	16,689	16,561	16,154	16,019	16,125
3,041	3,049	3,033	3,050	3,119	3,185
3,727	3,756	2,899	2,817	3,431	3,402
3,448	3,003	3,113	3,128	3,092	3,111
<u>2,639</u>	<u>2,632</u>	<u>2,570</u>	<u>2,573</u>	<u>2,570</u>	<u>2,600</u>
47,818	47,683	47,739	47,003	46,588	46,692

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

	2007	2008	2009	2010
General government				
Tax forms processed (6)	8,245,905	8,335,760	8,320,921	8,078,164
Passenger, commercial, and recreational vehicle registrations	8,785,222	8,570,421	8,506,838	8,459,499
Driver licenses issued	1,875,932	1,915,459	1,910,604 ⁽⁵⁾	1,791,417
Education				
K-12 students	1,678,579	1,648,585	1,614,975	1,592,598
Public university students	253,576	254,231	257,148	262,615
Community college students	139,219	146,234	157,225	177,277
Human services				
Food assistance program recipients (1)	1,204,409	1,262,951	1,462,710	1,776,368
Family independence program recipients (1)	237,102	210,181	202,693	224,651
Day care recipients (1)	106,062	97,856	83,137	63,643
Children in foster care	18,943	18,016	16,115	15,261
State disability assistance recipients (1)	11,015	10,427	10,528	10,628
Finalized adoptions (yearly total) (2)	2,638	2,899	3,087	2,612
Juvenile justice youth served	1,512	1,371	1,047	988
Open child support cases with support orders established	754,511	755,004	763,919	764,388
Public safety and corrections				
Inmates, parolees, and probationers (as of 9/30)	123,032	126,100	125,854	125,231
State police patrol miles driven	14,916,802	17,071,748	15,138,587	16,148,708
Criminal offender DNA samples entered into federal indexing database (calendar year)	30,519	25,263	19,029	20,911
National Guard members (as of 9/30)	11,862	11,991	11,817	11,900
Veteran homes average daily census	896	891	875	852
Conservation, environment, recreation and agriculture				
Hunting and/or fishing license holders (3)	1,981,382	1,964,480	1,951,579	1,934,765
Camping nights in State parks	929,753	891,607	894,410	916,289
Population impacted by water purification projects	490,298	1,331,867	359,015	370,662
Underground storage tank releases closed	233	159	203	231
Scrap tires collected (passenger tire equivalent)	3,736,086	3,772,376	5,517,872	1,121,596
Labor, commerce, and regulatory				
Processed applications for new and renewal occupational licenses	198,430	151,230	150,118	155,035
Building related permits issued	26,942	24,025	19,604	20,078
Building related safety inspections conducted	42,931	35,759	41,623	48,614
Occupational safety and health enforcement inspections conducted	5,001	5,032	5,071	5,202
Alleged occupational safety and health violations identified	16,712	15,781	14,006	14,221
Financial and insurance service providers chartered	323,791	334,685	328,182	331,410
Health services				
Medicaid recipients (1)	1,524,299	1,536,853	1,622,758	1,823,178
Women, Infants, and Children Food and Nutrition Program recipients (1)	232,280	239,145	242,453	256,229
Children's special health care services recipients (1)	30,898	31,452	30,008	31,818
Mentally ill/developmental disability service recipients (1)	213,257	219,238	228,258	228,215
Substance abuse service recipients	69,564	70,978	73,334	71,382

- NOTES: (1) Monthly average.
 (2) Total adoptions were completed by the Department of Health and Human Services (DHHS) and private agencies under contract with DHHS.
 (3) The licensing season runs April 1 through March 31. Amounts reported under fiscal year 2016 are for the licensing year ending March 31, 2016.
 (4) Amount estimated.
 (5) Enhanced driver licenses were sold starting in fiscal year 2009.
 (6) Numbers for fiscal years 2007 and 2008 are on a calendar year basis. Effective fiscal year 2009, the numbers are on a fiscal year basis.

SOURCES: Various State departments.

Michigan

2011	2012	2013	2014	2015	2016
8,521,664	8,539,957	8,360,575	8,432,444	8,253,892	8,843,031
8,479,747	8,435,868	8,496,407	8,543,342	8,604,852	8,726,870
1,901,673	1,969,253	1,956,686	1,811,237	1,907,776	1,995,736
1,565,324	1,550,111	1,533,442	1,522,039	1,506,953	1,494,053
264,903	264,913	263,817	262,537	261,989	260,817
176,370	164,828	154,118	143,829	133,895	124,371
1,928,478	1,828,384	1,775,646	1,680,721	1,571,403	1,473,614
227,490	154,941	129,185	89,957	71,156	55,379
54,049	50,028	43,246	35,501	29,624	30,941
14,043	13,504	13,902	13,209	13,246	13,145
10,094	8,713	7,845	6,723	5,600	4,664
2,506	2,554	2,361	2,186	1,817	1,983 (4)
951	801	790	729	668	639
772,687	774,463	771,108	760,284	683,193	694,706 (4)
117,152	112,049	108,738	106,966	104,345	101,853
15,045,772	17,633,319	18,852,703	21,249,946	22,731,503	22,532,597
16,475	16,098	21,283	14,776	20,930	39,964 (4)
11,504	11,156	10,901	10,537	10,001	10,242
798	690	665	649	610	589
1,912,262	1,851,287	1,919,692	1,947,508	1,838,505	1,836,298
899,311	987,189	1,021,712	939,105	1,022,791	1,087,867 (4)
725,931	463,457	691,102	677,175	821,323	1,181,115
171	184	285	488	427	344
220,508	161,704	522,869	183,359	369,305	293,525 (4)
147,791	125,603	135,734	341,132	128,071	148,606
18,182	19,221	17,783	17,066	18,051	16,718
46,510	49,614	58,223	56,098	52,578	55,731
5,343	5,394	5,267	5,231	4,437	5,069
14,333	13,744	12,741	10,693	11,266	13,855
349,269	390,005	225,927	255,121	277,147	298,370
1,899,107	1,875,544	1,854,880	1,842,957	1,706,468	1,710,770
252,123	255,954	254,126	251,713	244,829	234,546
31,587	29,958	31,083	33,550	33,512	33,206
231,091	242,884	251,019	241,329	236,291	Unavailable
70,069	70,145	70,664	71,248	70,173	69,928 (4)

OPERATING INDICATORS BY FUNCTION (Continued)
LAST TEN FISCAL YEARS

	2007	2008	2009	2010
Transportation				
Annual vehicle miles of travel on				
State Trunkline roads (11)	52,000,000,000	51,500,000,000	48,700,000,000	48,700,000,000
Miles of intercity bus travel receiving State funding	1,081,038	1,087,543	1,080,543	1,080,444
Miles of local bus travel receiving State funding	105,068,260	113,567,301	112,642,720	108,426,363
Railroad crossing maintenance/safety inspections	2,679	2,586	1,932	1,454
Tax credits				
Taxpayers claiming refundable credits (8) (10)	1,581,700	2,322,600	2,566,100	2,454,200
Intergovernmental-revenue sharing				
Township grants	1,241	1,241	1,240	1,240
City grants	274	274	275	277
Village grants	259	259	258	256
County grants (9)	-	1	7	20
Liquor Purchase Revolving Fund				
Annual retail liquor licenses issued	15,838	15,763	15,771	15,898
Liquor sales volume (cases)	6,464,739	6,611,415	6,734,253	6,877,873
Beer sales volume (barrels)	6,588,385	6,601,138	6,465,495	6,448,197
Wine sales volume (liters)	71,385,503	72,797,847	73,200,249	79,440,328
Pre-mixed spirit drink sales volume (liters)	1,008,073	811,286	787,948	983,029
State Lottery Fund				
Retailers	10,973	10,969	10,680	10,797
Winners greater than \$600	49,585	44,962	53,986	60,543
Millionaire prizewinners	42	37	40	39
Michigan Unemployment Compensation Funds				
Individuals receiving benefits (calendar year)	547,950	633,558	913,568	825,858

- NOTES: (7) Amount estimated.
- (8) Tax credits are reported based on the tax year. Credits claimed during tax year 2015, for example, are reported above in fiscal year 2015.
- (9) County grants were suspended beginning in fiscal year 2005. Instead, each county expends from its revenue sharing reserve fund created by State statute in 2004. Each fiscal year, counties are allowed only to expend from the fund the amount the Department of Treasury certifies them to spend. Once a county has exhausted its revenue sharing reserve fund, the county will return to revenue sharing.
- (10) Amount estimated and rounded to nearest hundred.
- (11) Amount estimated and rounded to nearest one hundred million on a calendar-year basis.

SOURCES: Various State departments.

Michigan

2011	2012	2013	2014	2015	2016
49,800,000,000	48,700,000,000	49,400,000,000	50,000,000,000	51,100,000	51,400,000
1,086,022	1,094,911	1,110,733	1,109,738	1,112,920	1,056,684
105,267,567	104,317,459	101,203,565	100,071,938	101,441,015	105,735,693 (7)
2,563	2,644	1,970	1,624	1,787	3,256
2,363,800	1,882,600	1,840,900	1,802,100	1,782,600	Unavailable
1,240	1,240	1,240	1,240	1,240	1,240
277	277	277	277	279	280
256	256	256	256	254	253
36	50	62	63	74	76
15,870	15,961	16,026	15,989	15,940	15,921
7,117,299	7,373,714	7,532,846	7,709,480	8,043,595	8,370,191
6,250,673	6,318,295	6,206,452	6,221,433	6,302,160	6,221,883
81,504,221	84,253,865	88,096,394	92,044,380	92,562,421	95,465,899
954,712	1,076,369	1,058,511	1,074,364	1,142,527	1,385,629
10,746	10,879	10,848	10,684	10,654	10,650
48,567	44,904	52,365	56,735	56,178	74,532
28	31	36	39	42	46
636,493	527,507	449,388	370,980	306,158	302,439 (7)

CAPITAL ASSETS BY FUNCTION

LAST TEN FISCAL YEARS

	2007	2008	2009	2010
General government:				
Buildings	280	296	279	261
Vehicles	754	756	772	812
Education				
Buildings	27	27	27	27
Vehicles	21	21	23	23
Human services				
Buildings	208	210	207	193
Vehicles	844	931	926	930
Public safety and corrections				
Buildings	1,390	1,403	1,393	1,389
Vehicles	3,548	3,605	3,542	3,568
Conservation, environment, recreation, and agriculture				
Buildings	300	314	326	340
Vehicles	3,763	3,832	3,850	3,912
Environmental quality air-monitoring instruments	194	195	198	202
Environmental quality lab/analyzing equipment	153	147	147	144
Natural resources acres of land	4,566,708	4,574,274	4,582,771	4,588,442
Harbors	16	16	17	17
Hatcheries	6	6	6	6
State park & recreation areas	98	98	98	98
Labor, commerce, and regulatory				
Buildings	164	158	154	173
Vehicles	482	509	510	492
Health services				
Buildings	239	241	241	241
Vehicles	276	287	290	305
Transportation				
Buildings	437	439	436	436
Vehicles	1,872	1,777	1,764	1,770
Highway lane miles (calendar year)	27,514	27,478	27,438	27,432
Heavy equipment owned	2,184	2,164	2,173	2,184

NOTE: Acres of land are on a tax year basis rather than a fiscal year basis.

SOURCES: Michigan Departments of Technology, Management and Budget, Natural Resources, Environmental Quality, and Transportation.

2011	2012	2013	2014	2015	2016
247	239	240	240	241	240
762	783	927	974	972	988
27	27	27	28	28	28
24	28	27	29	32	35
188	177	216	202	208	210
997	1,104	1,338	1,457	1,469	1,452
1,386	1,255	1,254	1,254	1,253	1,261
3,448	3,433	3,547	3,700	3,705	3,924
339	335	325	327	330	327
3,829	3,853	3,985	4,053	4,159	4,275
202	202	231	229	229	248
150	156	159	143	147	156
4,586,891	4,586,922	4,595,866	4,592,910	4,597,121	4,590,035
18	19	19	19	19	19
6	6	6	6	6	6
99	101	101	102	102	103
166	112	45	45	70	69
490	585	484	495	493	574
241	243	243	241	231	231
300	213	208	225	239	246
435	374	373	373	372	373
1,729	1,707	1,692	1,682	1,674	1,682
27,439	27,437	27,424	27,459	27,488	27,452
2,211	2,150	2,150	2,156	2,185	2,222





OTHER INFORMATION

COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES**GENERAL AND SPECIAL REVENUE FUNDS**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
TAXES			
Sales	\$ 7,299,628	\$ 1,906,294	\$ 5,393,334
Personal income	10,044,428	7,382,367	2,662,061
Single business, Michigan business, and corporate income	763,498	763,498	-
Use	2,056,124	1,359,359	696,765
State education (property)	1,897,292	-	1,897,292
Real estate transfer	289,314	-	289,314
Tobacco products	946,651	588,248	358,403
Beer and wine	51,793	51,793	-
Liquor	156,897	104,896	52,000
Horse race wagering	3,803	3,803	-
Casino gaming wagering	112,868	-	112,868
Telephone and telegraph company	34,734	34,734	-
Commercial mobile radio service	29,026	29,026	-
Insurance company	329,806	329,806	-
Health insurance claims assessment	228,475	228,475	-
Motor vehicle registration	1,021,813	3,489	1,018,324
Gasoline	873,309	-	873,309
Diesel fuel	137,825	-	137,825
Gas and oil severance	19,964	19,964	-
Industrial facilities	32,540	-	32,540
Convention hotel accommodation	24,946	24,946	-
Airport parking	27,567	27,567	-
Quality assurance assessment	1,138,810	1,138,810	-
Essential services assessment	67,641	67,641	-
Penalties and interest	124,391	124,391	-
Other	85,242	58,402	26,840
	<u>27,798,384</u>	<u>14,247,509</u>	<u>13,550,874</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	14,826,778	14,823,901	2,877
Department of Education	1,341,094	268,248	1,072,847
Department of Agriculture	3,089,071	2,578,746	510,325
Department of Labor	275,891	151,625	124,266
Department of Housing and Urban Development	13,461	13,461	-
Department of Energy	13,124	13,124	-
Department of Transportation	102,584	28,067	74,517
Department of Interior	41,107	35,786	5,320
Department of Defense	60,073	60,073	-
Department of Justice	39,137	39,137	-
Environmental Protection Agency	46,396	46,395	2
Other	179,241	179,225	15
	<u>20,027,958</u>	<u>18,237,788</u>	<u>1,790,170</u>
FROM LOCAL AGENCIES			
Counties	66,919	66,919	-
Cities, villages, and townships	7,533	7,533	-
School districts	4,428	4,428	-
Other	15,008	15,008	-
	<u>93,888</u>	<u>93,888</u>	<u>-</u>
SPECIAL MEDICAID REIMBURSEMENTS	<u>115,621</u>	<u>115,621</u>	<u>-</u>
	115,621	115,621	-

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 142,812	\$ 138,842	\$ 3,970
Revenue for patient, ward, and inmate care	33,300	33,300	-
Other	159,700	159,693	7
	<u>335,812</u>	<u>331,835</u>	<u>3,977</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	17,655	17,655	-
Motor vehicle operator and chauffeur licenses	47,963	47,327	637
Examination fees - financial institutions and insurance industry	36,974	36,974	-
Concession and privilege fees - State parks	1,023	-	1,023
Motor vehicle related	38,708	2,740	35,968
Hunting, fishing, and trapping licenses	63,238	-	63,238
Public utility assessment fees	30,984	30,984	-
Regulatory licenses and permits	79,986	65,835	14,151
Auto repair facility and mechanic licenses and fees	3,725	3,725	-
Corporation franchise fees	23,575	23,575	-
Recreation user fees and permits	94,246	1,947	92,299
Other	113,907	112,145	1,762
	<u>551,984</u>	<u>342,906</u>	<u>209,078</u>
MISCELLANEOUS			
Income from investments	30,317	5,184	25,133
Tobacco settlement proceeds	189,031	17,500	171,531
Various fines, fees, and assessments	78,840	44,303	34,537
Court fines, fees, and assessments	239,498	227,411	12,087
Oil and gas royalties, fees, assignments, and rentals	4,713	3,673	1,040
Environmental pollution settlements	4,947	2,837	2,110
Child support	8,500	8,500	-
Unemployment obligation assessment	479,970	-	479,970
Other	812,026	657,470	154,557
	<u>1,847,842</u>	<u>966,877</u>	<u>880,965</u>
Total Revenues	<u>50,771,488</u>	<u>34,336,425</u>	<u>16,435,063</u>
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	100,215	100,215	-
Capital lease acquisitions	18,423	16,008	2,415
Proceeds from sale of capital assets	2,543	2,543	-
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	209,756	209,756	-
From State Lottery Fund	879,387	4,380	875,007
From other funds	447,836	55,311	392,525
	<u>1,658,160</u>	<u>388,213</u>	<u>1,269,947</u>
Total Other Financing Sources	<u>1,658,160</u>	<u>388,213</u>	<u>1,269,947</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>\$ 52,429,648</u>	<u>\$ 34,724,638</u>	<u>\$ 17,705,010</u>

SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES**GENERAL FUND**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
TAXES			
Sales	\$ 1,906,294	\$ 675,103	\$ 1,231,191
Personal income	7,382,367	6,575,862	806,505
Single business, Michigan business, and corporate income	763,498	45,132	718,366
Use	1,359,359	1,345,227	14,132
Tobacco products	588,248	186,342	401,906
Beer and wine	51,793	51,793	-
Liquor	104,896	52,660	52,236
Horse race wagering	3,803	-	3,803
Telephone and telegraph company	34,734	34,734	-
Commercial mobile radio service	29,026	-	29,026
Insurance company	329,806	329,236	571
Health insurance claims assessment	228,475	-	228,475
Motor vehicle registration	3,489	-	3,489
Gas and oil severance	19,964	18,929	1,035
Convention hotel accommodation	24,946	-	24,946
Airport parking	27,567	-	27,567
Quality assurance assessment	1,138,810	11,456	1,127,353
Essential services assessment	67,641	67,641	-
Penalties and interest	124,391	112,286	12,106
Other	58,402	1,983	56,420
	<u>14,247,509</u>	<u>9,508,383</u>	<u>4,739,126</u>
FROM FEDERAL AGENCIES			
Department of Health and Human Services	14,823,901	11,023	14,812,878
Department of Education	268,248	1,047	267,200
Department of Agriculture	2,578,746	1,874	2,576,871
Department of Labor	151,625	1,066	150,560
Department of Housing and Urban Development	13,461	57	13,404
Department of Energy	13,124	28	13,096
Department of Transportation	28,067	1,381	26,686
Department of Interior	35,786	509	35,277
Department of Defense	60,073	-	60,073
Department of Justice	39,137	178	38,959
Environmental Protection Agency	46,395	16	46,379
Other	179,225	1,649	177,577
	<u>18,237,788</u>	<u>18,827</u>	<u>18,218,960</u>
FROM LOCAL AGENCIES			
Counties	66,919	-	66,919
Cities, villages, and townships	7,533	-	7,533
School districts	4,428	-	4,428
Other	15,008	-	15,008
	<u>93,888</u>	<u>-</u>	<u>93,888</u>
SPECIAL MEDICAID REIMBURSEMENTS	<u>115,621</u>	<u>-</u>	<u>115,621</u>
	115,621	-	115,621

<u>SOURCE</u>	<u>TOTAL</u>	<u>GENERAL PURPOSE</u>	<u>RESTRICTED REVENUES</u>
FROM SERVICES			
Charges for providing vehicle and driver services	\$ 138,842	\$ 717	\$ 138,125
Revenue for patient, ward, and inmate care	33,300	-	33,300
Other	159,693	5,976	153,717
	<u>331,835</u>	<u>6,693</u>	<u>325,142</u>
FROM LICENSES AND PERMITS			
Liquor retailer, manufacturer, and wholesaler licenses	17,655	1,613	16,042
Motor vehicle operator and chauffeur licenses	47,327	1,341	45,986
Examination fees - financial institutions and insurance industry	36,974	-	36,974
Motor vehicle related	2,740	33	2,707
Public utility assessment fees	30,984	-	30,984
Regulatory licenses and permits	65,835	8,225	57,611
Auto repair facility and mechanic licenses and fees	3,725	473	3,252
Corporation franchise fees	23,575	90	23,485
Recreation user fees and permits	1,947	392	1,554
Other	112,145	1,168	110,977
	<u>342,906</u>	<u>13,335</u>	<u>329,571</u>
MISCELLANEOUS			
Income from investments	5,184	1,237	3,947
Various fines, fees, and assessments	44,303	654	43,648
Court fines, fees, and assessments	227,411	75,842	151,569
Oil and gas royalties, fees, assignments, and rentals	3,673	-	3,673
Environmental pollution settlements	2,837	-	2,837
Tobacco settlement proceeds	17,500	-	17,500
Child support	8,500	-	8,500
Other	657,470	191,760	465,709
	<u>966,877</u>	<u>269,494</u>	<u>697,384</u>
 Total Revenues	 <u>34,336,425</u>	 <u>9,816,732</u>	 <u>24,519,692</u>
OTHER FINANCING SOURCES			
Proceeds from bond and bond anticipation notes	100,215	-	100,215
Capital lease acquisitions	16,008	-	16,008
Proceeds from sale of capital assets	2,543	-	2,543
Transfers From Other Funds:			
From Liquor Purchase Revolving Fund	209,756	209,560	196
From State Lottery Fund	4,380	2,999	1,381
From other funds	55,311	4,000	51,311
	<u>388,213</u>	<u>216,559</u>	<u>171,654</u>
Total Other Financing Sources	<u>388,213</u>	<u>216,559</u>	<u>171,654</u>
Total Revenue and Other Financing Sources (GAAP Basis)	<u>34,724,638</u>	<u>10,033,291</u>	<u>24,691,347</u>
BUDGETARY BASIS ADJUSTMENTS			
Capital lease acquisitions	(16,008)	-	(16,008)
Total Revenue and Other Financing Sources (Budgetary Basis)	<u>\$ 34,708,629</u>	<u>\$ 10,033,291</u>	<u>\$ 24,675,338</u>

SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	BUDGETARY TRANSFERS IN/OUT	BUDGETARY ADJUSTMENT	UNEXPENDED FROM PRIOR YEAR	RESTRICTED REVENUE ADDITIONS	LESS: TIMING DIFFERENCES* RESTRICTED REVENUE NOT AUTHORIZED/USED
Legislative Branch	\$ 154,532	\$ -	\$ 542	\$ 12,889	\$ 11,396	\$ (46)
Judicial Branch	184,109	-	-	23,617	76,809	(19,930)
Executive Branch:						
Agriculture and Rural Development	43,074	-	-	14,114	39,050	(13,121)
Attorney General	37,013	-	-	11,026	47,521	(3,492)
Civil Rights	12,950	-	-	135	2,401	(61)
Colleges and Universities Grants	1,360,840	-	-	30	96,921	-
Community Health	3,300,587	(1,893)	233	178,564	15,564,458	(212,386)
Corrections	1,917,348	-	-	111,534	39,338	(27,604)
Education	133,984	-	1	3,720	203,121	(2,592)
Environmental Quality	87,104	-	-	154,267	290,580	(158,677)
Executive Office	5,531	-	-	-	-	-
Human Services	941,393	1,893	-	18,348	4,100,665	(3,928)
Insurance and Financial Services	1,925	-	-	23,896	56,646	(23,447)
Licensing and Regulatory Affairs	42,612	-	-	114,317	297,631	(120,134)
Military and Veterans Affairs	60,612	-	-	9,445	106,803	(6,196)
Natural Resources	42,848	-	-	31,857	58,379	(11,717)
State	25,962	-	-	39,840	203,285	(35,444)
State Police	393,584	-	-	35,575	216,535	(29,147)
Talent and Economic Development	25,870	19	-	-	223,572	-
Technology, Management and Budget	582,968	-	-	633,763	437,405	(655,322)
Transportation	402,000	-	703	112,098	-	-
Treasury	625,209	(19)	-	139,364	3,186,804	(62,210)
Intrafund expenditure reimbursements	-	-	-	-	-	-
TOTAL	\$ 10,382,055	\$ -	\$ 1,479	\$ 1,668,401	\$ 25,259,319	\$ (1,385,452)

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

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

For budgetary purposes, encumbrance authorization are considered use of spending authority in the year the State incurs an obligation.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

Michigan

GROSS SPENDING AUTHORITY	LESS: TIMING DIFFERENCES* MULTI-YEAR PROJECTS	"BUDGET"	"ACTUAL"		"VARIANCES"		
		AS PRESENTED IN STATEMENTS	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES AUTHORIZED	LAPSES	OVEREXPENDED
\$ 179,314	\$ (16,214)	\$ 163,101	\$ 161,219	\$ 1,268	\$ 78	\$ 536	\$ -
264,605	(1,572)	263,033	257,348	4,598	-	1,088	-
83,117	(263)	82,854	78,403	4,191	-	260	-
92,069	(4,730)	87,340	86,835	414	-	91	-
15,425	-	15,425	14,764	2	-	659	-
1,457,790	(4)	1,457,786	1,455,863	-	-	1,923	-
18,829,562	(36,479)	18,793,083	18,612,800	40,382	-	140,940	(1,039)
2,040,617	(7,379)	2,033,238	1,950,019	74,182	573	8,464	-
338,234	(8,785)	329,449	326,886	778	516	1,269	-
373,274	(38,515)	334,759	327,030	1,710	-	6,019	-
5,531	-	5,531	5,236	-	-	295	-
5,058,371	(1,746)	5,056,625	5,036,351	8,341	-	11,933	-
59,020	-	59,020	58,870	-	-	150	-
334,425	(8,468)	325,958	297,500	1,491	24,333	2,634	-
170,664	(3,048)	167,616	161,538	5,342	-	736	-
121,367	(6,007)	115,360	102,040	13,165	-	155	-
233,643	(9,323)	224,320	222,770	65	91	1,394	-
616,548	(7,453)	609,094	606,548	2,198	-	349	-
249,461	(43)	249,418	248,432	905	-	81	-
998,813	(67,130)	931,683	915,564	8,841	814	6,463	-
514,801	(85,052)	429,749	397,367	32,382	-	-	-
3,889,149	(35,097)	3,854,052	3,781,934	15,331	29,555	27,232	-
-	-	(559,798)	(559,798)	-	-	-	-
<u>\$ 35,925,802</u>	<u>\$ (337,309)</u>	<u>\$ 35,028,694</u>	<u>\$ 34,545,519</u>	<u>\$ 215,584</u>	<u>\$ 55,960</u>	<u>\$ 212,670</u>	<u>\$ (1,039)</u>
Prior Year encumbrances		(198,512)	(198,512)				
Amount reported on Budgetary Comparison Schedule		<u>\$ 34,830,183</u>	<u>\$ 34,347,007</u>	<u>\$ 215,584</u>	<u>\$ 55,960</u>	<u>\$ 212,670</u>	<u>\$ (1,039)</u>

**SOURCE AND DISPOSITION OF
GENERAL FUND/GENERAL PURPOSE AUTHORIZATIONS
APPROPRIATION YEAR 2016**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

(In Thousands)

<u>BRANCH AND DEPARTMENT</u>	<u>CURRENT LEGISLATIVE APPROPRIATION*</u>	<u>BUDGETARY TRANSFERS IN/OUT</u>	<u>BUDGETARY ADJUSTMENT</u>
Legislative Branch	\$ 154,532	\$ -	\$ 542
Judicial Branch	184,109	-	-
Executive Branch:			
Agriculture and Rural Development	43,074	-	-
Attorney General	37,013	-	-
Civil Rights	12,950	-	-
Colleges and Universities Grants	1,360,840	-	-
Community Health	3,300,587	(1,893)	233
Corrections	1,917,348	-	-
Education	133,984	-	1
Environmental Quality	87,104	-	-
Executive Office	5,531	-	-
Human Services	941,393	1,893	-
Insurance and Financial Services	1,925	-	-
Licensing and Regulatory Affairs	42,612	-	-
Military and Veterans Affairs	60,612	-	-
Natural Resources	42,848	-	-
State	25,962	-	-
State Police	393,584	-	-
Talent and Economic Development	25,870	-	-
Technology, Management and Budget	582,968	-	-
Transportation	402,000	-	703
Treasury	625,209	-	-
TOTAL	\$ 10,382,055	\$ -	\$ 1,479

* The amounts in the "Current Legislative Appropriation" column include certain appropriations that do not appear as line-item appropriations in the budget bills. These appropriations are authorized in narrative "boilerplate" language in the budget bills. "Boilerplate" appropriations include interfund borrowing, interest on general obligation notes and bonds, and certain interfund transfers.

"Boilerplate" appropriations accounted for \$219.2 million of the "Current Legislative Appropriation" for the Appropriation Year 2016.

GROSS SPENDING AUTHORITY	"ACTUAL"			"VARIANCES"	
	EXPENDED/ TRANSFERRED	ENCUMBERED BALANCES FORWARD	MULTI-YEAR PROJECT BALANCES FORWARD	LAPSES	OVEREXPENDED
\$ 155,075	\$ 139,273	\$ 1,234	\$ 14,035	\$ 533	\$ -
184,109	178,538	3,827	709	1,035	-
43,074	40,980	1,831	185	78	-
37,013	34,315	321	2,287	90	-
12,950	12,289	2	-	659	-
1,360,840	1,358,942	-	2	1,896	-
3,298,927	3,103,583	23,392	32,381	139,571	-
1,917,348	1,862,110	44,105	5,764	5,369	-
133,985	123,825	533	8,585	1,041	-
87,104	48,489	1,594	37,021	-	-
5,531	5,236	-	-	295	-
943,286	924,994	7,201	669	10,422	-
1,925	1,775	-	-	150	-
42,612	36,988	244	4,199	1,180	-
60,612	53,785	3,825	2,355	647	-
42,848	32,505	6,443	3,798	102	-
25,962	17,786	41	6,775	1,360	-
393,584	387,320	1,018	5,032	214	-
25,870	24,846	905	43	76	-
582,968	534,637	5,555	36,567	6,210	-
402,703	328,226	21,230	53,246	-	-
625,209	570,109	4,155	23,740	27,205	-
<u>\$ 10,383,534</u>	<u>\$ 9,820,550</u>	<u>\$ 127,456</u>	<u>\$ 237,393</u>	<u>\$ 198,135</u>	<u>\$ -</u>

REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS

GENERAL AND SPECIAL REVENUE FUNDS

LAST TEN YEARS

SEPTEMBER 30, 2016

(In Thousands)

<u>SOURCE</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
TAXES:				
Sales	\$ 6,552,240	\$ 6,773,276	\$ 6,089,106	\$ 6,176,843
Personal Income (net of tax credits)	6,442,678	7,226,049	5,856,753	5,531,348
Amount reported as tax credits	883,400	931,600	963,500	1,351,500
Single Business, Michigan Business, and Corporate Income	1,786,213	2,482,035	2,285,237	1,853,557
Use	1,380,375	1,377,077	1,283,685	1,573,667
State Education (Property)	2,080,977	2,079,703	2,040,647	1,930,480
Real Estate Transfer	237,483	169,835	125,294	121,632
Tobacco Products	1,129,226	1,073,650	1,041,541	1,006,527
Beer, Wine, and Liquor	159,109	162,104	164,068	164,071
Casino Gaming Wagering	159,363	129,684	121,363	101,816
Insurance Company	223,754	223,198	261,002	257,511
Health Insurance Claims Assessment	-	-	-	-
Motor Vehicle and Fuel	1,902,811	1,847,540	1,806,694	1,807,185
Quality Assurance Assessment	827,776	1,023,766	859,482	840,254
Penalties and Interest	158,218	160,939	150,334	137,793
Other	440,925	409,333	293,955	315,218
TOTAL TAXES	24,364,549	26,069,791	23,342,662	23,169,402
FEDERAL AGENCIES	11,452,444	12,283,854	16,040,813	18,351,960
LOCAL AGENCIES	117,653	114,856	102,040	89,633
SPECIAL MEDICAID REIMBURSEMENTS	102,670	115,797	135,667	123,205
SERVICES	283,907	290,934	288,373	300,362
LICENSES AND PERMITS	427,915	435,108	450,009	452,620
MISCELLANEOUS	1,835,865	1,401,128	1,362,184	1,293,772
TOTAL REVENUE	38,585,002	40,711,468	41,721,749	43,780,955
PROCEEDS FROM BOND ISSUES AND BOND ANTICIPATION NOTES	18,662	26,215	144,225	60,583
CAPITAL LEASE ACQUISITIONS	20,906	110,374	41,205	39,101
PROCEEDS FROM SALE OF CAPITAL ASSETS	2,478	27,381	2,209	1,576
TOTAL REVENUE, BOND PROCEEDS, CAPITAL LEASE ACQUISITIONS, AND PROCEEDS FROM SALE OF CAPITAL ASSETS	\$ 38,627,048	\$ 40,875,439	\$ 41,909,387	\$ 43,882,215

NOTES: (1) Effective January 1, 2008, the State replaced the single business tax with the Michigan business tax. Effective January 1, 2012, the State replaced the Michigan business tax with the Corporate income tax.

(2) Legislation established the Health Insurance Claims Assessment, effective January 1, 2012.

Michigan

2011	2012	2013	2014	2015	2016
\$ 6,710,882	\$ 6,955,198	\$ 7,050,204	\$ 7,362,620	\$ 7,246,989	\$ 7,299,628
6,417,078	6,921,033	8,271,838	8,020,054	8,987,939	9,372,028
1,271,900	1,226,300	689,900	676,500	662,400	672,400
2,098,407	1,321,782	721,602	419,554	891,594	763,498
1,548,914	1,428,284	1,300,590	1,639,442	2,062,838	2,056,124
1,845,086	1,789,672	1,771,083	1,804,238	1,857,684	1,897,292
123,254	150,106	202,323	233,416	258,398	289,314
968,512	963,181	957,485	940,337	954,481	946,651
167,487	175,181	182,878	189,792	194,692	208,689
114,017	115,753	110,667	106,903	110,785	112,868
271,257	290,385	301,883	362,397	322,999	329,806
-	176,419	270,489	271,861	225,888	228,475
1,820,367	1,825,091	1,860,582	1,902,612	1,985,186	2,032,947
882,600	959,267	969,767	975,786	1,007,464	1,138,810
139,251	167,882	171,092	115,439	128,723	124,391
307,324	299,383	292,011	309,781	271,896	325,461
24,686,336	24,764,916	25,124,393	25,330,732	27,169,955	27,798,384
18,972,659	16,612,723	16,598,202	17,259,668	19,800,600	20,027,958
85,674	85,394	87,578	89,644	90,672	93,888
155,059	186,194	134,353	133,909	120,904	115,621
320,469	310,275	318,403	322,271	326,488	335,812
448,012	464,072	484,059	494,595	510,359	551,984
1,387,068	1,716,779	1,594,097	1,558,174	1,629,833	1,847,842
46,055,277	44,140,354	44,341,085	45,188,992	49,648,811	50,771,488
211,001	270,001	200,000	97,651	-	100,215
171,094	34,567	17,224	18,371	25,373	18,423
1,742	2,848	3,064	1,626	3,008	2,543
<u>\$ 46,439,114</u>	<u>\$ 44,447,770</u>	<u>\$ 44,561,373</u>	<u>\$ 45,306,640</u>	<u>\$ 49,677,192</u>	<u>\$ 50,892,669</u>

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

LAST TEN YEARS

SEPTEMBER 30, 2016

(In Thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Current:				
General government	\$ 1,580,973	\$ 1,546,624	\$ 1,582,399	\$ 1,463,926
Education	14,572,261	15,029,489	15,195,462	14,995,595
Human services	4,447,992	4,609,481	5,334,263	6,042,987
Public safety and corrections	2,465,362	2,614,768	2,589,942	2,571,390
Conservation, environment, recreation, and agriculture	552,992	580,246	539,796	528,387
Labor, commerce, and regulatory	957,023	966,091	1,145,954	1,223,197
Health services	10,741,285	11,588,207	12,450,287	13,218,598
Transportation	1,183,513	1,162,196	1,137,584	1,154,659
Tax credits	883,400	931,600	963,500	1,351,500
Capital outlay	42,290	31,978	38,429	38,136
Intergovernmental - revenue sharing	1,071,104	1,076,445	1,040,031	994,196
Debt service:				
Capital lease payments	<u>45,997</u>	<u>50,086</u>	<u>49,936</u>	<u>50,811</u>
Total Expenditures	<u>\$ 38,544,191</u>	<u>\$ 40,187,211</u>	<u>\$ 42,067,585</u>	<u>\$ 43,633,381</u>

Michigan

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 1,856,935	\$ 1,935,857	\$ 1,868,138	\$ 2,064,016	\$ 2,738,104	\$ 2,927,185
15,216,151	14,540,137	14,604,622	14,909,901	15,366,390	15,726,589
6,346,672	5,886,563	5,925,320	5,537,228	5,301,268	5,033,169
2,547,868	2,564,921	2,601,307	2,666,541	2,704,901	2,668,747
501,050	563,310	545,565	656,061	586,028	721,772
1,143,962	923,059	961,279	961,934	978,003	1,230,828
13,905,003	13,698,746	13,862,531	15,063,455	17,985,890	18,483,704
1,149,640	1,180,615	1,395,444	1,532,228	1,527,057	1,617,799
1,271,900	1,226,300	689,900	676,500	662,400	672,400
21,659	26,765	35,676	70,695	237,442	212,705
1,091,527	1,032,243	1,077,514	1,120,593	1,210,557	1,213,432
<u>55,803</u>	<u>55,867</u>	<u>58,357</u>	<u>62,237</u>	<u>66,295</u>	<u>68,377</u>
<u>\$ 45,108,168</u>	<u>\$ 43,634,383</u>	<u>\$ 43,625,653</u>	<u>\$ 45,321,388</u>	<u>\$ 49,364,335</u>	<u>\$ 50,576,708</u>

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Fiscal Year Ended September 30, 2016
Governor Rick Snyder, CPA
Prepared by the State Budget Office