

In the opinion of the Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain covenants, under existing law, interest on the Series Bonds is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and the Series Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan except for estate taxes and taxes from gains realized from the sale, payment or other disposition thereof.

\$19,665,000
MICHIGAN MUNICIPAL BOND AUTHORITY
Local Government Loan Program Revenue Bonds, Series 2003B

Dated: Date of Delivery

Due: as shown on inside cover page.

The Local Government Loan Program Revenue Bonds, Series 2003B (the "Series Bonds") will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series Bonds. Bondowners will not receive certificates representing their ownership interest in the Series Bonds purchased. See "THE SERIES BONDS - Book-Entry-Only System." Interest on the Series Bonds will be payable semiannually on May 1 and November 1, commencing May 1, 2004. The Series Bonds are subject to redemption prior to maturity as described herein.

The Series Bonds described below are being issued under the Resolution and the Supplemental Resolution of the Authority to finance the purchase by the Authority of Municipal Obligations issued by certain political subdivisions of the State of Michigan (the "Governmental Units"), and to pay the costs of issuance. The Governmental Units will use proceeds of the Municipal Obligations for the purposes described herein, including the financing and refinancing of public improvements and other municipal purposes.

The Series Bonds are limited obligations of the Authority. The Series Bonds of each Type are separately secured from Bonds of other Types and are payable solely from the revenues pledged therefor, including payments on the Municipal Obligations corresponding to such Type and the moneys on deposit in funds and accounts corresponding to such Type held by the applicable Depository and Trustee, National City Bank of Michigan/Illinois, under the Resolution. The Series Bonds of each Type will be equally and ratably secured with Bonds of the same Type under the Resolution regardless of the date when issued. The Revenue Sharing Bonds identified below are being issued with two separate group designations. Both groups of bonds will be equally and ratably secured with other Revenue Sharing Bonds under the Resolution. The Series Bonds shall not be in any way a debt or liability of the State of Michigan or of any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligation of the State of Michigan or of any political subdivision thereof or be or constitute a pledge of the full faith and credit or the taxing power of the State of Michigan or of any political subdivision thereof. The Authority has no taxing power.

\$13,740,000 Ambac Insured Bonds

A maturity schedule for the Ambac Insured Bonds is set forth on the inside of this cover page.

Payment of the principal of and interest on the Ambac Insured Bonds when due will be insured by a financial guaranty insurance policy (see "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS" and Appendix V herein) to be issued simultaneously with the delivery of the Ambac Insured Bonds by

Ambac

\$3,190,000 Revenue Sharing Bonds

A maturity schedule for the Revenue Sharing Bonds is set forth on the inside of this cover page.

\$2,735,000 School Program Bonds

A maturity schedule for the School Program Bonds is set forth on the inside of this cover page.

The Series Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by the Attorney General of the State of Michigan, and by Bond Counsel, Miller, Canfield, Paddock and Stone, P.L.C., Lansing and Detroit, Michigan. Certain legal matters will be passed upon by Howard & Howard Attorneys, P.C., Lansing, Michigan, counsel to the Underwriters. It is expected that the Series Bonds described above will be ready for delivery in New York, New York on or about September 30, 2003.

This cover page contains certain information for quick reference only. It is **not** a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Loop Capital Markets, LLC

Oppenheimer & Co., Inc.

Citigroup

The Series Bonds mature on the dates, in the years and in the amounts set forth in the tables below.

Payment of the principal of and interest on the Ambac Insured Bonds when due will be insured by a financial guaranty bond insurance policy (see "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS" and Appendix V herein) to be issued simultaneously with the delivery of the Ambac Insured Bonds by

Ambac

\$13,740,000 Ambac Insured Bonds

Ratings: Standard & Poor's Ratings Group: AAA

\$13,740,000 Ambac Insured Serial Bonds

<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2004	\$465,000	2.000%	1.07%	2014	\$670,000	4.000%	4.03%
2005	515,000	2.000	1.35	2015	695,000	4.000	4.14
2006	525,000	2.000	1.74	2016	725,000	4.100	4.25
2007	540,000	2.500	2.15	2017	755,000	4.200	4.38
2008	550,000	2.750	2.52	2018	785,000	4.400	4.50
2009	565,000	3.000	2.90	2019	820,000	4.500	4.60
2010	585,000	3.125	3.25	2020	860,000	4.500	4.68
2011	600,000	3.500	3.55	2021	895,000	4.600	4.76
2012	625,000	3.700	3.78	2022	940,000	4.750	4.86
2013	645,000	3.800	3.90	2023	980,000	4.750	4.95

\$3,190,000 Revenue Sharing Bonds

Ratings: Standard & Poor's Ratings Group: A

The Revenue Sharing Bonds being issued at this time are being issued with two separate group designations, and are subject to different provisions regarding redemption prior to maturity as described herein.

\$1,365,000 Revenue Sharing Serial Bonds, Group 1

<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
2004	\$100,000	2.000%	1.27%	2014	\$45,000	4.300%	4.40%
2005	115,000	2.000	1.60	2015	50,000	4.400	4.55
2006	115,000	2.500	2.04	2016	50,000	4.500	4.65
2007	120,000	2.500	100.00	2017	55,000	4.700	4.80
2008	125,000	3.000	2.80	2018	55,000	4.800	4.90
2009	40,000	3.100	3.20	2019	60,000	5.000	100.00
2010	40,000	3.500	3.60	2020	60,000	5.000	5.10
2011	40,000	3.750	3.85	2021	65,000	5.000	5.20
2012	45,000	4.000	4.05	2022	70,000	5.125	5.25
2013	45,000	4.100	4.23	2023	70,000	5.125	5.30

\$480,000 Revenue Sharing Serial Bonds, Group 2

<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Due</u> <u>Nov 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2009	\$90,000	3.10%	3.25%	2012	\$100,000	4.00%	4.10%
2010	90,000	3.50	3.65	2013	105,000	4.10	4.33
2011	95,000	3.75	3.95				

\$585,000 4.75% Revenue Sharing Term Bonds, Group 2 Due Nov. 1, 2018 - Price: 96.854%
\$760,000 6.00% Revenue Sharing Term Bonds, Group 2 Due Nov. 1, 2023 - Price: 102.855%

\$2,735,000 School Program Bonds

Ratings: Standard & Poor's Ratings Group: A+

\$2,735,000 School Program Serial Bonds

<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>Due</u> <u>May 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>
2004	\$155,000	2.00%	1.22%	2009	\$335,000	3.00%	3.15%
2005	305,000	2.00	1.55	2010	345,000	3.50	3.55
2006	310,000	2.50	1.99	2011	360,000	3.70	3.80
2007	315,000	2.50	2.45	2012	140,000	4.00	100.00
2008	325,000	3.00	2.75	2013	145,000	4.10	4.18

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITERS MAY OFFER AND SELL THE SERIES BONDS TO CERTAIN DEALERS, DEALER BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER OF THIS OFFICIAL STATEMENT. SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

No dealer, broker, salesman or other person has been authorized by the Michigan Municipal Bond Authority (the "Authority") or the Underwriters to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriters. The information set forth in this Official Statement has been obtained from the Authority or the Underwriters. The information set forth in this Official Statement has been obtained from the Authority, the State, The Depository Trust Company ("DTC"), Ambac Assurance Corporation ("Ambac") and other sources that are deemed to be reliable, but as to information from sources other than themselves, is not to be construed as a representation by the Authority, the State, DTC, Ambac, or the Underwriters respectively. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of the Series Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the State, DTC or Ambac since the date of this Official Statement. None of the information contained in this Official Statement has been supplied or verified by the Depository or the Trustee, and the Depository and the Trustee make no representations, warranties or guarantee as to the accuracy or completeness of any information in this Official Statement.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series Bonds.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTORY STATEMENT	1	School Program Municipal Obligations	22
THE AUTHORITY	3	TAX MATTERS	28
Powers and Duties	3	General	28
Membership	3	Apportionment of Original Issue Discount	29
AUTHORIZATION FOR AND PURPOSES OF	3	Amortizable Bond Premium	29
THE SERIES BONDS	4	Future Developments	30
The Act	4	LITIGATION	30
The Local Government Loan Program	4	LEGALITY OF SERIES BONDS FOR INVESTMENT	30
THE SERIES BONDS	5	AND DEPOSIT	30
General	5	STATE NOT LIABLE ON SERIES BONDS	30
Book-Entry-Only System	5	CONTINUING DISCLOSURE UNDERTAKING	31
Replacement Bonds	7	LEGAL MATTERS	32
The Refunding Plan	7	RATINGS	32
Estimated Sources and Uses of Funds	8	UNDERWRITING	32
Optional Redemption	8	VERIFICATION OF MATHEMATICAL COMPUTATIONS	32
Mandatory Redemption	9	OTHER MATTERS	33
Redemption Procedures	9	APPENDIX I - Certain Financial Information and Operating Data	
FINANCIAL GUARANTY INSURANCE FOR	10	Concerning the State of Michigan	
THE AMBAC INSURED BONDS	10	APPENDIX II - Certain General, Economic and Demographic	
Payment Pursuant to Financial Guaranty Insurance Policy	10	Information Concerning the State of Michigan	
Ambac Assurance Corporation	11	APPENDIX III - Certain Information Regarding Certain	
Available Information	11	Governmental Units	
Incorporation of Certain Documents by Reference	12	APPENDIX IV - Summary of Certain Provisions of the Resolution	
SOURCES OF PAYMENT FOR THE SERIES BONDS	13	APPENDIX V - Specimen Financial Guaranty Insurance Policy	
Pledge of Municipal Obligations	13	APPENDIX VI - Forms of Legal Opinions	
Reserve Accounts for Bonds of Certain Types	14	APPENDIX VII - Form of Continuing Disclosure Undertaking	
ADDITIONAL BONDS	14		
THE MUNICIPAL OBLIGATIONS	14		
Ambac Insurance Program Municipal Obligations	14		
Revenue Sharing Municipal Obligations	14		
School Program Municipal Obligations	15		
SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS	15		
Ambac Insurance Program Municipal Obligations	15		
Revenue Sharing Municipal Obligations	15		

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OFFICIAL STATEMENT

Relating to

\$19,665,000

MICHIGAN MUNICIPAL BOND AUTHORITY Local Government Loan Program Revenue Bonds Series 2003B

This Official Statement (including the cover pages and appendices hereto) is being distributed in order to furnish information in connection with the sale of the Series Bonds (defined below) of the Michigan Municipal Bond Authority (the "Authority") issued in accordance with Act 227 of the Michigan Public Acts of 1985, as amended (the "Act") and pursuant to Bond Resolution 1989-15, adopted by the Authority on September 21, 1989, as amended (the "Resolution"). Bonds issued under the Resolution shall be referred to as the "Bonds". The Resolution authorizes the issuance and sale of bonds, pursuant to Supplemental Resolutions, in any one or more of several Types. Separate Series will be so designated in Supplemental Resolutions. Bonds of each Type are separately secured but all Bonds of the same Type, regardless of their original issue date, are equally and ratably secured under the Resolution. The particular Bonds being sold at this time are Bonds designated as Local Government Loan Program Revenue Bonds, Series 2003B (the "Series Bonds") in the aggregate principal amount of \$19,665,000 issued pursuant to the Resolution and a Supplemental Resolution adopted by the Authority on July 31, 2003 (the "Supplemental Resolution") in the following Types and principal amounts: (i) \$13,740,000 AMBAC Insured Bonds (the "AMBAC Insured Bonds"); (ii) \$3,190,000 Revenue Sharing Bonds (the "Revenue Sharing Bonds"); and (iii) \$2,735,000 School Program Bonds (the "School Program Bonds"). The Revenue Sharing Bonds are being issued with two separate group designations, and are subject to different provisions regarding redemption prior to maturity as described herein.

Capitalized terms used in this Official Statement that are not otherwise defined herein have the meanings set forth in "Appendix IV - Summary of Certain Provisions of the Resolution" attached hereto. The proceeds of the Series Bonds, after payment of Costs of Issuance, are being used to acquire Municipal Obligations (defined below), to refund certain outstanding indebtedness issued under the Resolution, and to pay the costs of issuance, all as described in greater detail herein.

INTRODUCTORY STATEMENT

Pursuant to the Act, the Authority's local government loan programs have been established for the purpose of making loans to political subdivisions of the State of Michigan (the "State") for financing public improvements and for other municipal purposes. The Authority accomplishes this purpose by purchasing obligations (the "Municipal Obligations") issued by counties, cities, townships, villages, school districts, community colleges, public universities, authorities, districts or other political subdivisions of the State (the "Governmental Units").

Pursuant to the Resolution, proceeds of the Series Bonds, after payment of Costs of Issuance, will be used by the Authority to purchase Municipal Obligations issued by the Governmental Units. The Governmental Units will use the proceeds of the Municipal Obligations to finance public improvements, to refinance outstanding indebtedness, and for other municipal purposes, as described herein under the caption

"AUTHORIZATION FOR AND PURPOSES OF THE SERIES BONDS -- The Local Government Loan Program." These Municipal Obligations may be secured, in part, by a pledge of payments to be received from the Michigan Transportation Fund or a pledge of revenue sharing or school aid payments. See "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS" herein.

Pursuant to the Resolution, the Bonds of any Series may consist of the following "Types" of Bonds:

AMBAC Insured Bonds⁺;
Capital Guaranty Insured Bonds;
Local Project Bonds (so designated from time to time
by an Authorized Officer of the Authority as one or more Types);
MBIA Insured Revenue Sharing Bonds;
Michigan School Bus Program Bonds;
Qualified School Bonds;
Revenue Sharing Bonds⁺;
School Program Bonds⁺;
State Qualified School Bonds; and
Transportation Fund Bonds.

Each Type of Bond is separately secured under the Resolution. Each Type of Bond may be used to acquire Municipal Obligations of the types described under "AUTHORIZATION FOR AND PURPOSES OF THE SERIES BONDS -- The Local Government Loan Program" herein. The Authority expects in the future to issue Bonds of the various Types described in this Official Statement.

The Series Bonds are payable solely from the revenues pledged therefor, including, with respect to Bonds of each Type, Loan Repayments on Municipal Obligations corresponding to the Bonds of such Type. See "SOURCES OF PAYMENT FOR THE SERIES BONDS" herein. The Series Bonds are not in any way a debt or liability of the State and do not constitute a pledge of the faith and credit or taxing power of the State.

National City Bank of Michigan/Illinois, with corporate trust offices located in Troy, Michigan and Cleveland, Ohio, has been appointed to act as Trustee, Depository and Bond Registrar and Paying Agent under the Resolution with respect to the Series Bonds.

The following are summary descriptions of and information regarding, among other things, the Authority, the authorization for and purpose of the Series Bonds and the Authority's Local Government Loan Program, the Series Bonds and Municipal Obligations, the sources of payment for the Series Bonds and the Municipal Obligations, the plan of refunding, the bond insurance for certain of the Series Bonds, and the tax status of the Series Bonds. A summary of certain provisions of the Resolution and the Supplemental Resolution is contained in Appendix IV attached hereto. Such descriptions and information do not purport to be comprehensive and the descriptions of documents herein are qualified in their entirety by reference to such documents and to laws and principles of equity relating to creditors' rights. Copies of the Resolution and the Supplemental Resolution and other documents are available for inspection at the corporate trust office of the Trustee located in Troy, Michigan.

⁺ Bonds of this Type are being offered hereunder

THE AUTHORITY

Powers and Duties

The Authority is a public body corporate, separate and distinct from the State, created by the Act for the purposes of fostering and promoting the borrowing of money by Governmental Units within the State for financing public improvements and for other municipal purposes. In order to effectuate such purposes, the Authority is authorized to issue its bonds and notes and to make money available to Governmental Units by the purchase of their Municipal Obligations.

In addition to the Series Bonds, the Authority has outstanding (a) long-term bonds under various series of its Local Government Loan Program Revenue Bonds, (b) 1987 Local Government Refunding Bonds, Series A, (c) notes issued to purchase short-term obligations of Governmental Units, (d) Equipment and Real Property Financing Program Bonds, (e) State Revolving Fund Revenue Bonds, (f) School Loan Revenue Bonds, Series 2003 and (g) Public School Academy Facilities Program Revenue Bonds. The Authority expects to issue additional bonds and notes under these and other programs in the near future.

The Authority was established by statute, the Shared Credit Rating Act, Act No. 227, Public Acts of Michigan, 1985, as amended (the "Act").

Membership

The Authority is governed by a board of trustees (the "Board"). The State Treasurer serves as the chairperson of the Board. The Authority is authorized to employ an Executive Director, legal and technical experts and other officers, agents or employees, permanent or temporary.

The members of the Board are appointed by the Governor with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office. The Board currently has one vacancy. The members of the Board are:

<u>Member</u>	<u>Occupation</u>
Jay B. Rising, Chairperson	State Treasurer
Mark J. Burzych	Attorney, Foster, Swift, Collins & Smith, P.C.
M. David Campbell II	Vice President, Unisys Corporation
Richard LeBaron	Chartered Life Underwriter and Chartered Financial Consultant, AXA Financial Advisor
Donald B. Weatherspoon	Chief Deputy Director, Michigan Family Independence Agency
Don Gilmer	Kalamazoo County Administrator

The Resolution provides that the covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution are those of the Authority and not of any member of the Board or any officer or employee of the Authority in his or her individual capacity and that no recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any member, officer or employee of the Authority or any person executing the Bonds.

Under the Act, the Authority is within the State Department of Treasury but exercises its statutory functions independently of the State Treasurer (except for the State Treasurer's appointment of administrative staff and exercise of certain administrative functions related to staff, pursuant to the Governor's Executive Order 2002-12). The Authority's address is Treasury Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 373-1728.

The Executive Director of the Authority is Janet Hunter-Moore.

AUTHORIZATION FOR AND PURPOSES OF THE SERIES BONDS

The Act

The Series Bonds are being issued under the Act, pursuant to which the Authority is created to assist Governmental Units in the orderly financing of public improvements and for other municipal purposes at reduced rates of interest or on more favorable terms than might otherwise be obtained by the Governmental Units. The Authority accomplishes this by purchasing the Municipal Obligations issued by Governmental Units. See "THE AUTHORITY" and "AUTHORIZATION FOR AND PURPOSES OF THE SERIES BONDS -- The Local Government Loan Program" herein. Qualifying Governmental Units include Michigan counties, cities, townships, villages, school districts, community colleges, public universities and other political subdivisions and bodies corporate and politic of the State.

The Local Government Loan Program

The Resolution authorizes the Authority to purchase the following types of Municipal Obligations from Governmental Units:

- AMBAC Insurance Program Municipal Obligations;
- Capital Guaranty Insurance Program Municipal Obligations;
- Local Project Municipal Obligations (each a different Type);
- MBIA Insurance Program Revenue Sharing Municipal Obligations;
- Michigan School Bus Program Municipal Obligations;
- Revenue Sharing Municipal Obligations;
- School Program Municipal Obligations;
- State Qualified School Program Municipal Obligations; and
- Transportation Fund Municipal Obligations.

In order to finance and refinance capital projects undertaken by Governmental Units and for other lawful purposes, the Authority, on the date of delivery of each Series of Bonds, will use the proceeds of each such Type of Bond in that Series to purchase Municipal Obligations, which will be issued by the Governmental Units on such date, subject to the satisfaction of certain eligibility requirements of the Authority relating to the sources of payment for Municipal Obligations and described under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS" and, with respect to any Type of Bond for which a Financial Guaranty Insurance Policy is obtained by the Authority, subject to the approval of the insurer. The remainder of the proceeds of the Bonds of such Series will be used to pay Costs of Issuance.

With respect to each separately designated Type of Bond, scheduled Loan Repayments to be collected in connection with Municipal Obligations corresponding to such Type, in amounts and at rates sufficient to provide funds which, when combined with Loan Repayments to be collected in connection with other Municipal Obligations corresponding to such Type, the amounts available from the account of the Reserve Fund corresponding to such Type, if any, any amounts transferred to the account of the Revenue Fund

corresponding to such Type, to provide for payment of capitalized interest on Bonds of such Type and all investment income required by the respective Resolution to be transferred to such account of the Revenue Fund, as estimated by the Authority (and with respect to any Type of Bond for which a Financial Guaranty Insurance Policy is obtained by the Authority, such estimate has not been objected to in writing by the insurer) will be sufficient to pay, when due, the principal of and interest on the Bonds of such Type, and all other costs and expenses of the Authority incurred directly or indirectly in connection with the issuance, carrying and repaying of the Bonds of such Type and the purchasing of corresponding Municipal Obligations. Each Municipal Obligation will be in Fully Marketable Form and will be delivered to the Authority together with any Collateral Documents and such other information, certificates, opinions and instruments as the Authority may require at a closing to be scheduled as soon as practicable after approval of the application of the Governmental Units.

THE SERIES BONDS

General

The Series Bonds will consist of AMBAC Insured Bonds, Revenue Sharing Bonds and School Program Bonds, and will be used to finance and refinance public improvements. The Series Bonds described in this Official Statement will mature on the dates and in the principal amounts set forth on the inside cover pages of this Official Statement. The Series Bonds will bear interest from their dated date of delivery until maturity or prior redemption, payable as indicated on the cover of the Official Statement. See "Appendix IV - Summary of Certain Provisions of the Resolution," attached hereto. The Series Bonds will be issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof.

Book-Entry-Only System

The information in this section "Book-Entry-Only System" has been furnished by The Depository Trust Company ("DTC"). No representation is made by the Authority, the State, the Trustee or the Underwriters as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Authority, the State, the Trustee or the Underwriters to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Authority, the State nor the Trustee will have any responsibility or obligation to DTC participants, indirect participants or the persons for which they act as nominees with respect to the Series Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC, New York, NY, will act as securities depository for the Series Bonds. The Series Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series Bond certificate will be issued for each maturity of each Type of Series Bond, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This

eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Series Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the book-entry system for the Series Bonds is discontinued.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Series Bonds may wish to ascertain that the nominee holding the Series Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Replacement Bonds

In the event that the book-entry-only system is discontinued, the Trustee will authenticate and make available for delivery replacement Series Bonds in the form of fully registered bond certificates. In addition, the following provisions would apply: a) principal of and redemption premium, if any, on the Series Bonds will be payable in lawful money of the United States of America at the corporate trust office of the Trustee or such other office as may be designated by the Authority; b) interest on the Series Bonds will be payable by check or draft mailed to the registered owners thereof or, upon five days written notice to the Bond Registrar and Paying Agent given by a Registered Owner of a Series Bond or Series Bonds in an aggregate principal amount of at least \$100,000, by wire transfer of funds to a bank account in the United States designated by such Registered Owner; and c) interest on the Series Bonds will be payable by check or draft to the Registered Owners whose names appear on the registration books of the Bond Registrar and Paying Agent as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date, all as provided more particularly in the Resolution.

The Refunding Plan

A portion of the proceeds of the Series Bonds is being used to refund Municipal Obligations previously purchased by the Authority and to provide for the defeasance of the related Authority bonds under the Resolution (the "Bonds To Be Refunded") as set forth below:

<u>Type</u>	<u>Maturity</u>	<u>Amount</u> ⁺	<u>Call Date</u>	<u>Call Price</u>
Local Government Loan Program Revenue Sharing Bonds, Series 1991B	2010 ⁺⁺	\$345,000	11/01/03	100%

⁺ This represents the principal amount to be refunded. The total amount of outstanding bonds maturing on this date may be greater than this amount.

⁺⁺ Term Bond maturing on this date.

The amounts set forth in the table above represent the total principal amount of Authority bonds under the Resolution that will be currently refunded with the proceeds of the Series Bonds; the total principal amount of the identified maturity of these bonds may be greater than this amount. Only the amount shown will be called/paid from the proceeds of the Series Bonds. With respect to outstanding term bonds of the Authority, mandatory redemption requirements may be reduced as a result of the refunding of the above-described bonds.

From the net proceeds of the Series Bonds, the Authority, pursuant to a Letter of Instruction, will transfer to National City Bank of Michigan/Illinois (the "Escrow Trustee") an amount that, when held uninvested, will provide for the timely payment of the principal of, premium, if any, and interest on the Bonds To Be Refunded to and including their November 1, 2003 redemption date, and direct the Escrow Trustee to redeem the Bonds To Be Refunded on such date.

Estimated Sources and Uses of Funds

SOURCES:

Par Amount of Series Bonds	\$ 19,665,000.00
Less Net Original Issue Discount	(113,763.70)
Total Sources	<u>\$ 19,551,236.30</u>

USES:

Purchase of Municipal Obligations	\$ 18,899,526.11
Payment of Bonds To Be Refunded	357,506.25
Costs of Issuance and Miscellaneous Expenses ⁺	151,499.04
Underwriters' Discount	<u>142,704.90</u>
Total Uses	<u>\$ 19,551,236.30</u>

⁺ Includes local costs of issuance and bond insurance premium.

Optional Redemption

The Series Bonds issued as AMBAC Insured Bonds, School Program Bonds and the Revenue Sharing Bonds, Group 1, maturing on or prior to November 1, 2013 are not subject to optional redemption. The AMBAC Insured Bonds and the Revenue Sharing Bonds, Group 1, which mature after November 1, 2013 are subject to redemption at the option of the Authority on or after November 1, 2013, in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

The Revenue Sharing Bonds, Group 2, maturing after November 1, 2008 are subject to redemption at the option of the Authority on or after November 1, 2008 in whole or in part, at any time and, if in part, from such maturities as the Authority determines, at par, plus accrued interest to the redemption date.

Mandatory Redemption

The Revenue Sharing Term Bonds, Group 2, maturing November 1, 2018 and November 1, 2023 are subject to mandatory redemption at a redemption price equal to the principal amount thereof in the principal amounts and on the dates set forth below:

Revenue Sharing Term Bonds, Group 2 Due November 1, 2018

<u>November 1</u>	<u>Amount</u>
2014	\$105,000
2015	110,000
2016	115,000
2017	125,000
2018 ⁺	130,000

⁺Final Payment at Maturity

Revenue Sharing Term Bonds, Group 2 Due November 1, 2023

<u>November 1</u>	<u>Amount</u>
2019	\$135,000
2020	145,000
2021	150,000
2022	160,000
2023 ⁺	170,000

⁺Final Payment at Maturity

The principal amounts of the Series Bonds to be redeemed in each year as set forth in the preceding tables may be reduced through the earlier purchase or optional redemption thereof by the Authority, with any partial purchase or optional redemptions of such Bonds credited against such future sinking fund requirements as the Authority shall determine.

Redemption Procedures

Notice of Redemption

Under the Resolution, the Bond Registrar and Paying Agent will mail, by first class mail, as specified in the Resolution, a notice of redemption to the Holders of the Bonds to be redeemed at least 30 and not more than 60 days prior to the redemption date. If any optional redemption is to be made under the Resolution with funds that the Authority expects to receive from Governmental Units between the time of the giving of such notice and the redemption date, the notice will expressly condition such redemption on timely receipt of such funds. The failure of any Bondholder to receive any such notice or any defect in such notice with respect to any Series Bond or portion thereof will not affect the validity of any proceedings for the redemption of any Series Bonds.

Selection of Bonds to be Redeemed

When Bonds are to be redeemed in part, the Authority shall specify to the Bond Registrar and Paying Agent the Series designation, maturity, Type and Original Issue Date of the Bonds from which Bonds or portions of Bonds to be redeemed shall be selected. Subject to the Authority's specification, the particular Bonds or portions of Bonds to be redeemed will be selected by the Bond Registrar and Paying Agent by lot or in such other manner as the Bond Registrar and Paying Agent in its discretion may deem fair, provided that (i) if only a portion of any Series Bond is to be redeemed, the principal amount of the portion remaining Outstanding will be equal to \$5,000 or an integral multiple of \$5,000 and (ii) in selecting Series Bonds for redemption, the Bond Registrar and Paying Agent will treat each Series Bond as representing that number of Series Bonds that is obtained by dividing the principal amount of such Series Bond by \$5,000.

FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the AMBAC Insured Bonds effective as of the date of issuance of the AMBAC Insured Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the AMBAC Insured bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the AMBAC Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the AMBAC Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding AMBAC Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding AMBAC Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the AMBAC Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of AMBAC Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such AMBAC Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the AMBAC Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such AMBAC Insured Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,789,000,000 (unaudited) and statutory capital of approximately \$4,043,000,000 (unaudited) as of June 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Market Services, a Division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the AMBAC Insured Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the AMBAC Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company") is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied the SEC's public reference room. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC maintains an internet site at <http://sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Assurance. These report, proxy statements and other information can be read at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are: One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement.

- 1) The Company Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
- 8) The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
- 10) The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003; and
- 11) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS - Ambac Assurance Corporation -- Available Information."

SOURCES OF PAYMENT FOR THE SERIES BONDS

The Series Bonds shall not be in any way a debt or liability of the State or any political subdivision thereof and shall not create or constitute any indebtedness, liability or obligations of the State or any political subdivision thereof, or be or constitute a pledge of the full faith and credit or the taxing power of the State or any political subdivision thereof. The Authority has no taxing power. The Series Bonds are limited obligations of the Authority, payable by the Authority solely from the revenues pledged therefor, including the Municipal Obligations issued to the Authority, as described herein, and the funds and accounts held by the Depository and Trustee under the Resolution.

Pledge of Municipal Obligations

Pursuant to the Resolution, the Authority will pledge and assign to the Trustee, for the benefit of all Holders of the Bonds of each Type, (i) all of the Authority's rights and interest in the Municipal Obligations and the Collateral Documents pertaining to such Type under the Resolution, subject to reservation by the Authority of rights to indemnification and to make all determinations and approvals and receive all notices accorded to it under the Municipal Obligations and Collateral Documents, (ii) all moneys in the Revenue Fund established for the Bonds of such Type under the Resolution and (iii) all of the proceeds of the foregoing, including without limitation investments thereof and interest and earnings thereon.

The pledge made to the Trustee under the Resolution with respect to the Bonds of each Type is for the equal and ratable benefit of all of the Holders of the Bonds of such Type, and no Holder of any Bond will have priority over any other Holder of Bonds of the same Type or any exclusive right to receive any amounts allocable to Loan Repayments on a particular Municipal Obligation by virtue of the fact that proceeds of such Bond have been used to purchase such Municipal Obligation.

Loan Repayments for all Municipal Obligations pertaining to each Type of Bond are scheduled at such times and in such amounts as will provide sufficient amounts, when combined with capitalized interest and other funds available for use by the Authority, to make timely payments of interest on and principal of the Bonds of such Type.

All of the Revenue Sharing Municipal Obligations and School Program Municipal Obligations to be purchased with the proceeds of the Series Bonds satisfy certain program eligibility requirements of the Authority relating solely to the sources of payment for the Municipal Obligations to be purchased and described under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS." Since the Authority relies upon the satisfaction of various program eligibility requirements relating solely to the sources of payment for these Municipal Obligations, no information is presented in this Official Statement with respect to a Governmental Unit's ability to pay the principal of and interest on its Municipal Obligations from sources other than the sources of payment described under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS" herein, and no assurance can be made with respect to a Governmental Unit's ability to pay the principal of and interest on its Municipal Obligations from sources other than those described in the section "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS" herein.

Appendix III of this Official Statement contains limited information concerning the only Governmental Unit issuing AMBAC Insurance Program Municipal Obligations which currently meets the definition of Material Obligated Person (See Appendix VII). Such information is not and should not be construed as representative of all or any other of the Governmental Units. In the event a scheduled Loan Repayment is not received by the Authority on the Ambac Insurance Program Municipal Obligations, payment on AMBAC Insured Bonds will be made in accordance with the Financial Guaranty Insurance Policy to be issued by Ambac Assurance. A decision to acquire the AMBAC Insured Bonds should include a

review of the information contained in this Official Statement concerning Ambac Assurance. See "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS" and "Appendix V-- Specimen Financial Guaranty Insurance Policy" for information regarding Ambac Assurance.

Reserve Accounts for Bonds of Certain Types

No Reserve Account has been established for the AMBAC Insured Bonds or the School Program Bonds. Pursuant to the Resolution, a Reserve Account for the Revenue Sharing Bonds has been established within the Reserve Fund.

Other than compliance with rebate requirements under the Code, moneys credited to the Revenue Sharing Reserve Account will be used solely for the payment of principal or redemption price of, and interest on all Outstanding Revenue Sharing Bonds to the extent insufficient amounts are available to pay such items in the Revenue Fund on any Interest Payment Date, mandatory redemption date or maturity date.

Pursuant to the Resolution, contributions to the Reserve Account for the Revenue Sharing Bonds need only be made to the extent necessary to maintain any rating applicable to such Revenue Sharing Bonds. **No contribution to the Revenue Sharing Reserve Account is being made with respect to the Series Bonds and the Authority anticipates that it may not make additional contributions in the future.**

ADDITIONAL BONDS

Pursuant to the Resolution, additional Series of Bonds comprised of Bonds of each Type may be issued from time to time under Supplemental Resolutions. Notwithstanding the dates upon which particular Bonds of any Type are issued, all of the Bonds of each Type will be equally and ratably secured under the Resolution, and no holder of any Bond will have priority over any other holders of the Bonds of the same Type. The Authority expects to issue additional bonds under the Resolution in the future.

THE MUNICIPAL OBLIGATIONS

Ambac Insurance Program Municipal Obligations

Ambac Insurance Program Municipal Obligations may be issued by various school districts and units of municipal government, in accordance with the laws authorizing their issuance. The Authority has no specific program eligibility requirements with respect to the Ambac Insurance Program Municipal Obligations. These Municipal Obligations are subject solely to credit approval by Ambac Assurance and such Municipal Obligations may be secured by pledges of revenue sharing payments, school aid payments, or transportation fund revenues and/or other security required by Ambac. See "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS" herein for additional information regarding Ambac Assurance.

Revenue Sharing Municipal Obligations

Revenue Sharing Municipal Obligations may be issued by incorporated cities, villages and townships of the State, and by local building authorities, downtown development authorities and tax increment finance authorities organized by such municipalities, in accordance with statutes authorizing the issuance of bonds, notes or other obligations by such Governmental Units.

The payment of principal of and interest on Revenue Sharing Municipal Obligations will be provided in accordance with the laws authorizing their issuance. In addition, Governmental Units issuing Revenue Sharing Municipal Obligations will pledge Distributable Aid pursuant to the State Revenue Sharing Act to the

payment of such Municipal Obligations, to the extent authorized by the Act. Each such Governmental Unit will effect its Distributable Aid pledge by entering into a Revenue Sharing Pledge Agreement with the Authority.

See the "Legislative Changes Regarding Distributable Aid" subheading under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS--Revenue Sharing Municipal Obligations" for information regarding legislation which affects the amounts and types of Distributable Aid that Government Units may receive in the future.

School Program Municipal Obligations

School Program Municipal Obligations may be issued by Governmental Units eligible to receive payments from the State pursuant to the State School Aid Act of 1979, Act 94 of the Public Acts of 1979, as from time to time amended ("State School Aid Act"), in accordance with the statutes authorizing the issuance of bonds, notes and other obligations by such Governmental Units.

The payment of principal of and interest on School Program Municipal Obligations will be provided in accordance with the laws authorizing their issuance. In addition, Governmental Units issuing School Program Municipal Obligations will pledge the payments they receive from the State pursuant to the State School Aid Act ("School Aid Payments"). Each such Governmental Unit will effect its pledge of School Aid Payments by entering into a School Aid Pledge Agreement with the Authority. The Authority may not purchase School Program Municipal Obligations unless the School Aid Payments received by the Governmental Unit in its most recently completed fiscal year is not less than twice the amount of the estimated maximum annual principal and interest requirement for the School Program Municipal Obligation and any other obligations of the Governmental Unit secured by a pledge of School Aid on a parity basis.

See the "Sources of State School Aid" subheading under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS -- School Program Municipal Obligations" for information regarding legislation which affects the amounts of School Aid that Government Units may receive in the future.

SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS

Ambac Insurance Program Municipal Obligations

The payment of principal of and interest on Ambac Insurance Program Municipal Obligations will be provided for in accordance with the laws authorizing their issuance and may be general obligations, limited obligations, revenue bonds or special assessment bonds. A decision to acquire Ambac Insurance Program Municipal Obligations should include a review of the information contained in this Official Statement concerning Ambac Assurance and the Financial Guaranty Insurance Policy being issued by Ambac Assurance. See "FINANCIAL GUARANTY INSURANCE FOR THE AMBAC INSURED BONDS" and "Appendix V -- Specimen Financial Guaranty Insurance Policy."

Revenue Sharing Municipal Obligations

Distributable Aid Pledge

In addition to any other source of payment required by the borrowing statutes under which the Revenue Sharing Municipal Obligations may be issued, and to the extent authorized by the Act, Governmental Units will pledge Distributable Aid to the payment of Revenue Sharing Municipal Obligations pursuant to the State Revenue Sharing Act.

To effectuate the pledge of Distributable Aid to the Authority, the Resolution requires the Authority to enter into a Revenue Sharing Pledge Agreement with the Governmental Unit when the Municipal Obligation is issued. Pursuant to the Revenue Sharing Pledge Agreement, if five days before any Loan Repayment becomes due, the Governmental Unit does not have moneys sufficient to make each Loan Repayment on deposit with the Authority (or its designated depository), then notwithstanding the payment dates otherwise prescribed for revenue sharing payments to the Governmental Unit, the State Treasurer will pay to the Authority an amount sufficient to make such Loan Repayment, up to the total amount of appropriated and unpaid Distributable Aid allocable to such Governmental Unit. If any such initial payment by the State Treasurer is insufficient to remedy the failure of the Governmental Unit to make a Loan Repayment, the State Treasurer will continue to pay over to the Authority all subsequently available Distributable Aid which the Governmental Unit would otherwise be entitled to receive until all overdue Loan Repayment Obligations have been satisfied. Any such payment by the State Treasurer which is made before the date such payment would otherwise be payable to the Governmental Unit will be deemed an advance to such Governmental Unit, as provided in the State Revenue Sharing Act. Nothing in the Revenue Sharing Pledge Agreement constitutes or creates any indebtedness of the State and the Agreement does not require the State to make an appropriation for any Governmental Unit.

Under the Resolution, the Authority may not purchase a Revenue Sharing Municipal Obligation from any Governmental Unit unless the average Distributable Aid Ratio and Distributable Sales Tax Ratio for such Governmental Unit during the two preceding annual distribution periods pursuant to the State Revenue Sharing Act equals or exceeds 2.0 and 1.5, respectively. The Resolution defines Distributable Aid Ratio to mean, with respect to any Governmental Unit and annual distribution period, the ratio of the amount of all payments of Distributable Aid that the Governmental Unit is eligible to receive in such annual period, to the estimated maximum annual principal and interest requirements for the Municipal Obligation. The Resolution defines Distributable Sales Tax Ratio to mean, with respect to the Governmental Unit and annual distribution period, the ratio of the amount of all payments of State sales tax revenues that the Governmental Unit is eligible to receive under the State Revenue Sharing Act in such annual period to the estimated maximum annual principal and interest requirements for the Revenue Sharing Municipal Obligations.

The Revenue Sharing Pledge Agreement allows a Governmental Unit to make additional pledges of its Distributable Aid to the extent that (1) the amount of Distributable Aid received by the Governmental Unit in the fiscal year of the State preceding the issuance of such bonds or notes or other obligations equals or exceeds the amount required in each year to pay the sum of (i) an amount equal to 2.0 times the principal and interest for the Municipal Obligation, and (ii) the principal and interest on any additional bonds or notes or other obligations for which Distributable Aid has been pledged, and (2) the amount of Distributable Aid composed of sales tax revenues received by the Governmental Unit in the fiscal year of the State preceding the issuance of such bonds or notes or other obligations equals or exceeds the amount required in each year to pay the sum of (i) an amount equal to 1.5 times the principal and interest for the Municipal Obligations and (ii) the principal and interest on any additional bonds or notes or other obligations for which Distributable Aid has been pledged.

Although local building authorities, tax increment finance authorities, downtown development authorities and local development finance authorities do not receive Distributable Aid from the State, the Resolution permits the Authority to purchase Revenue Sharing Municipal Obligations from such an authority if the municipality that incorporated or established such authority (i) enters into a Revenue Sharing Pledge Agreement with the Authority, and (ii) meets the Distributable Aid Ratio and Distributable Sales Tax Ratio requirements described above.

The State Revenue Sharing Program

Historically, the State has shared revenue derived from various State taxes with cities, villages and townships. Pursuant to legislation enacted in 1996, the State distributes revenue from the State sales tax (See Table 2 and the narrative below). Revenue sharing distributions still include an amount for reimbursements for business inventory personal property that has not been subject to local taxation since 1975. Distributions under the State Revenue Sharing Act constitute unrestricted local revenue that can be used for any legal purpose.

Sales tax revenues are distributed to municipalities each February, April, June, August, October and December from the collections of those taxes made during the previous bimonthly period.

Payments under the State Revenue Sharing Act to cities, villages, townships and counties for the State fiscal years ended September 30, 1994 through September 30, 2003, are set forth in Table 1.

Legislation affecting amounts and timing of Distributable Aid is described below under "Legislative Changes Regarding Distributable Aid."

TABLE 1
DISTRIBUTION OF STATE REVENUE SHARING PAYMENTS BY
TYPE OF LOCAL GOVERNMENT
Fiscal Years 1994 - 2003
(In millions of dollars)

Fiscal Years Ended September 30	Cities	Villages	Townships	Counties	Total
1994	640.7	(1)	230.5	130.9	1,002.5
1995	684.2	(1)	233.9	143.6	1,061.7
1996	721.7	24.0	257.0	146.7	1,149.4
1997	741.0	24.6	264.1	159.6	1,189.4
1998	767.8	26.2	285.8	168.1	1,247.9
1999	850.8	28.7	300.6	168.6	1,348.7
2000	892.2	30.9	324.7	182.4	1,430.2
2001	911.7	33.7	381.3	196.8	1,523.5
2002	888.0	33.1	378.7	185.6	1,485.4
2003	846.7	31.9	370.2	172.0	1,420.8

(1) The total state revenue sharing payments made to villages for this year are included in the cities' total.

SOURCE: Michigan Department of Treasury, Office of Revenue and Tax Analysis. Amounts are calculated on a cash basis and do not include inventory reimbursements or general fund supplementals.

The sources of tax revenues for the State revenue sharing program for the fiscal years ended September 30, 1994 through September 30, 2003 are set forth in Table 2. A narrative description of each such revenue follows.

TABLE 2
SOURCES OF STATE REVENUE SHARING DISTRIBUTIONS
Fiscal Years 1994 - 2003
(in millions of dollars)

<u>Fiscal Years Ended Sept. 30</u>	<u>Total Distributions</u>	<u>Sales Tax Constitutionally Dedicated^(1,2) Distributions</u>	<u>Sales Tax Statutory Distributions</u>	<u>Gross Sales Tax Collections</u>	<u>Distributions From Other Sources^(1,3)</u>
1994	1,002.2	477.6	0.0	3,775.3 ⁽²⁾	524.6 ⁽⁴⁾
1995	1,061.7	477.0	0.0	4,884.2	584.7 ⁽⁴⁾
1996	1,131.1	505.3	0.0	5,175.6	625.8 ⁽⁴⁾
1997	1,189.4	537.7	651.7	5,389.8	9.3 ⁽⁵⁾
1998	1,247.9	561.9	686.0	5,617.3	6.9 ⁽⁵⁾
1999	1,348.7	580.3	800.4	5,901.7	7.6
2000	1,430.2	628.4	802.1	6,277.5	8.0
2001	1,523.5	642.8	880.8	6,352.3	0.0
2002	1,485.4	649.3	836.1	6,439.9	0.0
2003 ^(P)	1,420.8	660.3	760.5	6,504.1	0.0

- (1) See text for a discussion of the provisions of revenue sharing portions of each tax source and for a discussion of recent changes.
- (2) Percentage of gross collections does not exactly equal 15% in any one fiscal year because payments lag beyond the end of the year. In addition, collections after May 1, 1994 reflect the full 6% sales tax rate.
- (3) Includes personal income tax, single business tax and intangibles tax.
- (4) These numbers reflect distribution changes due to payment deferrals, reductions and legislative changes described herein.
- (5) Reflects Special Census revenue sharing payments. Special Census revenue sharing payments are made to eligible cities, villages, and townships, with a minimum 15% growth, pursuant to the State Revenue Sharing Act. These payments are made to cities, villages, and townships that were certified to be eligible by July 1, 1997. The payments reflect the amount of revenue sharing each eligible city, village, and township would have received for the fiscal year ending June 30. Funds are appropriated from the State General Fund.
- (P) Preliminary

SOURCE: Michigan Department of Treasury, Office of Revenue and Tax Analysis. Amounts are calculated on a cash basis and do not include inventory reimbursements under Single Business Tax Act.

Sales Tax. The State levies a 6% sales tax, the maximum rate permitted by the State Constitution, on retail sales with certain exceptions such as food and drugs. As described under "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II, Proposal A increased the State sales tax from 4% to 6%. The State Constitution specifies that 15% of sales tax collections (based on 4% collection rate since the other 2% is constitutionally dedicated to school finance) are distributed to municipalities as part of the State Revenue Sharing Program (the "Constitutional Payment"). The Revenue Sharing Act was amended in 1996 to further provide that an additional 21.3% of sales tax collections (based on a 4% collection rate since the other 2% is constitutionally dedicated to school finance), less the inventory reimbursement payment which is distributed only to counties, as part of the State Revenue Sharing Program (the "Statutory Payment").

Historical Revenue Sharing Components. Historically, personal income tax, single business tax and intangibles taxes were all components of the State's revenue sharing program. As described in "Legislative Changes Regarding Distributable Aid" below, these tax revenues no longer comprise a portion of the revenue sharing distributions to municipalities. The intangibles tax, which was 3.5% of income (with certain related statutory credits) in 1993 began to be phased out in 1994 and was eliminated entirely in 1998. Michigan still levies a personal income tax, though this tax is no longer a component of revenue sharing distributions. The personal income tax is levied on adjusted gross income of individuals, estates and trusts. Michigan also still levies a single business tax, though this tax is no longer a component of revenue sharing distributions. For a discussion of the single business tax, see "Major Funds of the State - General Fund - Single Business Tax" in Appendix I.

Method of Distribution. Legislation was enacted in December 1998, which significantly revised the method of distribution for revenue sharing distributions. ("PA 532").

Distribution Methodology for Cities, Villages and Townships Prior to PA 532

Prior to PA 532, the Constitutional Payment revenues were allocated on a population basis. Population was used as an indicator of service needs, because the level of any service provided by a municipality was proportional to the number of people served. For purposes of the State revenue sharing program, the population of a municipality, determined by the most recent federal statewide census, was adjusted by subtracting 50% of the number of patients, wards or convicts committed to or domiciled in a public tax-supported institution.

75.5% of the Statutory Payment was distributed to cities, villages and townships on the basis of population as adjusted by relative tax effort ("RTE") (the remaining 24.5% of the Statutory Payment was distributed to counties). Relative tax effort was used as an indicator of local governments whose service needs require higher or lower tax levies relative to other local governments. The RTE rate of a municipality was defined as its total local tax effort divided by the statewide tax effort. The local tax effort was equal to total local taxes (general ad valorem property tax, income tax, excise tax, and since July 1987, certain special assessments) divided by the taxable value of property in the municipality. In 1996, the statewide average tax effort was 12.85 "mills." The statewide tax effort rate meant the total local taxes in the state divided by the statewide total taxable value. RTE rates were computed annually in May based on information from the Assessing Officer's Report, and a supplemental special assessment report filed each December with the State Tax Commission. State revenue sharing RTE formula payments from July 1993 through June 1994 were based on calendar year 1992 tax rates.

Distribution Methodology for Cities, Villages and Townships Under PA 532

Under PA 532, distributions of the Constitutional Payment is unchanged, and continues to be allocated on a population basis. Population is used as an indicator of service needs, because the level of any service provided by a municipality is proportional to the number of people served. For purposes of the State revenue sharing program, the population of a municipality, determined by the most recent federal statewide census, is adjusted by subtracting 50% of the number of patients, wards or convicts committed to or domiciled in a public tax-supported institution.

Under PA 532, the portion of the Statutory Payment allocated to cities, villages and townships is reduced from 75.5% to 74.94% (the county portion being increased from 24.5% to 25.06%), and the inventory replacement component is eliminated. The relative tax effort formula is also replaced, with a distribution methodology based equally on three factors, which formulae are to be phased in over a ten-year period, beginning in fiscal year 1998-99. The three factors are set forth below. 33 1/3% of Statutory Payments allocated to cities, villages and townships are distributed based on each factor.

1. The Taxable Value per Capita Component. This component is used as an indicator of a municipality's ability to raise revenue. It weighs each local unit's population by the ratio of statewide taxable value per capita to its local taxable value per capita.

2. The Unit Type and Population Component. This component is used to account for differences between municipalities arising from local government complexity and population; a more complex unit of government is presumed to have higher needs and provide more services. The component assigns a value to each type of unit (city, village, township) at various population levels. A city would be weighted higher than a village of equal population, and a village would be weighted higher than a township of equal population. The population weighting factors increase by 20% after each doubling of the population.

3. The Yield Equalization Formula. This component is used to equalize, among all municipalities, the amount of per capita total revenue the local unit of government collects for every mill it levies (i.e., its yield). The component determines the amount by which a municipality's taxable property value per capita is below a standard taxable value per capita (which is not a fixed number, but floats to a level that generates revenues equal to the amount of available funds), and equalizes revenue yields for these municipalities for mills actually levied, up to 20 mills.

Additional Provisions of PA 532

PA 532 limits the increase in total revenue sharing payments (Constitutional Payments plus Statutory Payments) to any city, village or township to no more than eight percent per year, unless the local unit's 2000 population increased more than 10% compared to the 1990 population. It also contains a hold harmless clause, providing that for fiscal years 1998-99, revenue sharing payments to a city, village or township could not be less than the total the unit received in the previous year. PA 532 was part of a larger legislative package which also resulted in a phased-in reduction of City of Detroit income tax rates.

Legislative Changes Regarding Distributable Aid

Currently, revenue sharing payments are comprised of State sales tax revenues. Constitutionally dedicated sales tax revenues are not subject to reduction by the Legislature or the Governor. On more than one occasion, the most recent being fiscal year 2003, in order to balance the State budget, authorized revenue sharing payments were reduced by executive order of the Governor. Revenue sharing payments have also been reduced or deferred by statutory amendments, as described below.

On May 28, 1992, the Governor signed into law legislation which deferred income tax and single business tax revenue sharing payments originally scheduled for payment in August and September of 1992 until the State's 1992-93 fiscal year. The legislation amended the Single Business Tax Act to permanently change the September distribution to October. It also amended the Income Tax Act and the State Revenue Sharing Act to permanently modify the distribution schedule for income tax distribution to cities, villages and townships by decreasing August payments by \$67.8 million and increasing November, February and May payments by \$22.6 million each. For fiscal year 1991-92 only, cities, villages and townships received a payment of \$27.4 million in June, 1992. Consequently, for the State's 1991-92 fiscal year, the State's expenditures were reduced by approximately \$111.3 million, derived from \$40.4 million net savings on

income tax distribution deferrals to cities, villages and township, \$35.9 million savings on income tax distribution deferrals to counties and \$35.0 million savings on single business tax distribution deferrals. The Department of Management and Budget indicated that the legislation was intended only to restructure the timing of distribution of existing revenue sharing funds, and was not intended to change either the amount of revenue sharing funds to be distributed or the formulas used to allocate these funds between various municipalities.

Legislation was enacted which reduced revenue sharing payments in fiscal year 1992-93 by approximately \$45.5 million. The legislation reduced single business tax distributions by \$11.8 million, reduced income tax distribution by \$24.2 million (\$6.75 million to counties and \$17.5 million to cities, villages and townships) and permanently deferred the June intangible tax distribution date from June to October, resulting in a \$9.5 million expenditure reduction for the State during its fiscal year 1992-93. The impact of this legislation was to freeze revenue sharing payments for fiscal year 1992-93, at the overall level, at the level of distribution for fiscal year 1991-92.

Legislation was enacted in September, 1993 which reduced the amount of revenue sharing payments which local governmental units would otherwise be entitled to receive in fiscal year 1993-94 pursuant to statute. This legislation eliminated intangibles tax distributions, beginning in fiscal year 1993-94 (a reduction of \$9.5 million), reduced income tax distributions by \$48.2 million (\$9.9 million to counties and \$38.3 million to cities, villages and townships) in fiscal year 1993-94 and reduced single business tax distributions by \$6.9 million in fiscal year 1993-94. The legislation also provided that local governmental units will not be entitled to receive revenue sharing payments unless they require sealed competitive bidding for any contract of \$20,000.00 or more. The legislation did not affect sales tax based revenue sharing payments.

Legislation was enacted in July, 1994 that further affected revenue sharing payments to local units of government for the State's 1993-94 and 1994-95 fiscal years. Act 299 of the Michigan Public Acts of 1994 amended the State Revenue Sharing Act to (i) continue the elimination of intangible tax distributions (described in the preceding paragraph for fiscal year 1993-94) in fiscal year 1994-95 and (ii) withhold single business tax and income tax revenue sharing from cities, villages and townships that fail to report their overlapping taxes to the State Treasurer by March 1 of each year as required by law. Act 298 of the Michigan Public Acts of 1994 amended the Income Tax Act to (i) reduce the amount of income tax that would otherwise have been available for revenue sharing in fiscal year 1994-95 by \$10 million for counties and \$40.6 million to cities, villages and townships and (ii) change the reduction in income tax revenue sharing for fiscal year 1993-94 (described in the preceding paragraph) from \$9.9 million to \$7.8 million for counties and from \$30.28 million to \$30.310 million for cities, villages and townships. Act 300 of the Michigan Public Acts of 1994 amended the Single Business Tax Act to reduce the amount of single business taxes available for revenue sharing in fiscal year 1994-95 by \$6.9 million (the same reduction described in the preceding paragraph for fiscal year 1993-94).

Legislation was enacted in 1996 which significantly altered the structure of revenue sharing payments to municipalities. As described above, and pursuant to this legislation, revenue sharing distributions are no longer comprised of sales tax, income tax, single business tax and intangibles tax components. Rather, these distributions are comprised entirely of sales tax revenues, a portion of which are constitutionally mandated and a portion of which are established by statute. The 1996 legislation also made permanent some of the historical annual reductions in the statutory earmarking of revenue sharing funds by codifying the statutory figure of 21.3% of sales tax collections (based on a 4% collection rate). The 1996 legislation set the RTE distribution methodology and simplified the revenue sharing payment schedule. The 1996 legislation also requires that the revenue sharing distributions are subject to an annual appropriation by the legislature. If the appropriation is less than what the revenue sharing sales tax allocations formulas would provide, then the revenue sharing payments are limited by the appropriation. For a discussion of the single business tax, see "Major Funds of the State - General Fund - Single Business Tax" in Appendix I.

Legislation was enacted in December 2002 which reduced the amount of revenue sharing payments which local governmental units would otherwise be entitled to receive in fiscal year 2002-2003. Public Act 679 of 2002 amended the State Revenue Sharing Act to reduce all local units fiscal year 2003 revenue sharing payments by 3.5% (\$53.1 million). Additional legislation was enacted in July 2003, (P.A. 575), which allowed the fiscal year 2003 revenue sharing payments to be reduced by 4.24% instead of the 3.5% enacted in December 2002.

In addition, P.A. 575 of 2003 amended the State Revenue Sharing Act for the fiscal year 2004 payments. The legislation states that each local governmental unit is to receive 97% of the amount of the local unit received in fiscal year 2003. Under this legislation, the formulas will not be used to compute the statutory payments for fiscal year 2004.

As described above, PA 532 has significantly modified the allocation and distribution methodology for the Statutory Payment component of revenue sharing distributions and on numerous occasions, the legislature has passed legislation that has modified how the statutory revenue sharing payments are computed.

As described above, the Legislature or the Governor has taken action on numerous occasions in recent history that affected the amount, the source of payment or the timing of revenue sharing payments to local units of government. In addition to the foregoing, legislation could be introduced at any time and from time to time which could modify the amount of tax revenues available for distribution or otherwise modify the distributions described herein. Also, see "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II for a description of certain changes in the income tax, the property tax, the funding of school district operations in the State, and the impact of the foregoing on the State.

School Program Municipal Obligations

State Aid Pledge

In addition to any other source of payment required by the borrowing statutes under which School Program Municipal Obligations may be issued, and to the extent authorized by the Act, Governmental Units will pledge State school aid payments ("State Aid") received pursuant to Act No. 94, Public Acts of Michigan, 1979, as amended (the "State School Aid Act of 1979"). Under the Resolution, the Authority may not purchase a School Program Municipal Obligation from any Governmental Unit unless the State Aid received by the Governmental Unit in its most recently completed fiscal year is not less than twice the amount of the estimated maximum annual principal and interest requirements for the Municipal Obligation and any other obligations of the Governmental Unit secured by a pledge of State Aid on a parity basis.

To effectuate the pledge of State Aid to the Authority, the Resolution requires the Authority to enter into a School Aid Pledge Agreement with the Governmental Unit prior to acquiring the School Program Municipal Obligations. Pursuant to the School Aid Pledge Agreement, if, five days before any Loan Repayment becomes due, the Governmental Unit does not have moneys sufficient to make each Loan Repayment on deposit with the Authority (or its designated depository), then the State Treasurer will pay to the Authority sufficient State Aid, up to the full amount of State Aid allowable to the Governmental Unit lawfully available on such date to the State Treasurer, which the Governmental Unit would otherwise be entitled to receive so that the Authority has on hand sufficient money to pay all Loan Repayment Obligations due on such date. Nothing in the School Aid Pledge Agreement constitutes or creates any indebtedness of the State and the Agreement does not require the State to make an appropriation for any Governmental Unit.

Sources of State School Aid

Property Tax and School Finance Reform. On March 15, 1994, the people of the State approved an amendment to the State Constitution (the "Constitutional Amendment"). The Constitutional Amendment provides, in part, as follows:

For taxes levied in 1995 and each year thereafter, the legislature shall provide that the taxable value of each parcel of property adjusted for additions and losses, shall not increase each year by more than the increase in the immediately preceding year in the general price level as defined in section 33 of this article, or 5 percent, whichever is less until ownership of the parcel of property is transferred. When ownership of the parcel of property is transferred as defined by law, the parcel shall be assessed at the applicable proportion of current true cash value.

That provision could have the effect of limiting increases in the assessed value of property in each of the Governmental Units.

In conjunction with the Constitutional Amendment, the State Legislature enacted legislation which substantially reduces the maximum rate at which ad valorem property taxes can be levied by local school districts for school operating purposes. Except for certain levies authorized as described in the two paragraphs below, each local school district shall levy no more than 18 mills for school operating purposes or the number of mills it levied in 1993 for school operating purposes, whichever is less. All homestead property and qualified agricultural property as defined by State law is exempt from such levy, except as generally described in this paragraph. A local school district with a foundation allowance per pupil for the State's fiscal year 1994-95 (which is generally equal to a local school district's combined State revenue per pupil in the State's fiscal year 1993-94 and local revenue per pupil in the school district's fiscal year 1993-94, plus an amount sufficient to guarantee that the minimum foundation allowance per pupil would be \$4,200, with the increase varying from \$160 to over \$250, depending on the local school district (the "1994-95 Foundation Allowance")) of more than \$6,500 was authorized in 1994 to reduce the number of mills from which homestead and agricultural property is exempted as described above by up to the number of mills required to be levied on homestead and agricultural property in order for the school district's combined State and local revenue per pupil for its fiscal year 1994-95 to equal its 1994-95 Foundation Allowance. In each succeeding year, such a school district is authorized to continue levying that number of mills for school operating purposes on homestead and qualified agricultural property in an amount equal to the reduction in the exemption authorized as generally described above, subject to certain constitutional and statutory limitations.

In the event the State Department of Treasury determined that the maximum number of mills allowed to be levied as described in the paragraph above was not sufficient for a local school district's combined State and local revenue per pupil for the school district's fiscal year 1994-95 to be equal to the school district's 1994-95 Foundation Allowance, that school district was authorized in 1994 to levy additional mills uniformly on all property up to the number of mills required in order for the school district's combined State and local revenue per pupil for its fiscal year 1994-95 to equal its 1994-95 Foundation Allowance. In each succeeding year, a local school district is authorized to continue levying that number of mills for school operating purposes in an amount equal to the number of additional mills authorized as generally described above, subject to certain constitutional and statutory limitations. The mills authorized as described in this paragraph and the paragraph above can be levied only with the approval of a local school district's electors. Millage, up to the limits described above, approved by the electors before January 1, 1994 for which authorization has not expired, is considered to be approved by the electors.

In addition to the foregoing, each intermediate school district is authorized to levy a regional enhancement millage of not to exceed three (3) mills for enhancing operating revenues on all property if approved by its electors.

The Constitutional Amendment provides that a law that increases the statutory limits on the maximum amount of ad valorem property taxes that may be levied for school district operating purposes, as described in the four paragraphs above, requires the approval of 3/4 of the members elected to and serving in the State Senate and in the State House of Representatives.

Sources of Revenue. The Constitutional Amendment, together with legislation enacted in conjunction with the Constitutional Amendment, has substantially increased the revenues dedicated to the State's school aid fund. Pursuant to the Constitutional Amendment, the State's school aid fund directly receives (i) 60% of all taxes imposed at a rate of 4% on retailers on taxable sales at retail of tangible personal property and (ii) 100% of the proceeds of the sales and use taxes imposed at the additional rate of 2%. Pursuant to State statutory provisions, the State's school aid fund directly receives (i) all of the proceeds generated from the tax levied on cigars, noncigarette smoking tobacco and smokeless tobacco at a rate of 16% of the wholesale price thereof, (ii) 63.4% of the proceeds generated by the tax levied on cigarettes at the rate of 3.75 cents per cigarette (75 cents per pack), (iii) all of the proceeds generated by the .75% real estate transfer tax, (iv) the profits of the state-operated lottery, (v) a portion of the commercial and industrial facilities taxes imposed pursuant to the Commercial Redevelopment Act, Act No. 255, Public Acts of Michigan, 1978, as amended, and Act No. 198, Public Acts of Michigan, 1974, as amended, respectively, which would otherwise be disbursed to local school districts and which compensates the State for increased State Aid to certain intermediate school districts affected by the property tax abatements authorized under those Acts, (vi) the State's 4% liquor excise tax, (vii) the State's education tax levied at a rate of six mills on all property not exempt by law from ad valorem property taxes or not subject to a tax levied upon certain rail transportation, telephone and telegraph companies and (viii) 23.0% of the gross collections before refunds from the State income tax levied at a rate of 4.1% during calendar year 2002 and 4.0% beginning January 1, 2003%.

Schedule of State Aid Payments. Pursuant to the State School Aid Act, a school district's annual entitlement to State Aid for the 2002-03 fiscal year shall be paid in installments equal to one-eleventh of such entitlement on the 20th (or if the 20th falls on a Saturday, Sunday or legal holiday, on the immediately preceding business day) in each of the months of October through August, subject to certain statutory adjustments. In addition, the Constitutional Amendment provides, in part, as follows:

Beginning in the 1995-96 state fiscal year and each state fiscal year after 1995-96, the state shall guarantee that the total state and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total state and local per pupil

revenue for school operating purposes for that local school district, as adjusted for consolidations, annexations, or other boundary changes. However, this guarantee does not apply in a year in which the local school district levies a millage rate for school district operating purposes less than it levied in 1994.

Under state law in effect during fiscal year 1998-99, the State Aid payments for pupil memberships other than special education pupils during the State's fiscal year 1999-2000 will provide each local school district an amount equal to the school district's foundation allowance per membership pupil for the State's fiscal year 1999-2000 (the "1999-2000 Foundation Allowance") or \$7,152, whichever is less, minus the difference between (a) the product of the taxable value per membership pupil of all property in the district that is not homestead property or qualified agricultural property (as defined by State law) times the lesser of 18 mills or the number of mills of school operating taxes levied by the district in its fiscal year 1993-94 and (b) the quotient of the ad valorem property tax revenue of the district captured by a downtown development authority, a tax increment finance authority, a local development finance authority or a Brownfield redevelopment authority divided by the district's membership other than special education pupils. Under PA 339, the State Aid foundation payment for special education pupils during the State's fiscal year 1999-2000 provided each local school district an amount equal to its 1999-2000 Foundation Allowance or \$7,152, whichever was less.

On June 19, 1999, the Governor signed Public Act 119 of 1999 ("PA 119"), which amended the State School Aid Act to provide a supplemental increase in the 1999-2000 Basic Foundation Allowance per membership pupil to \$5,696 or an additional \$44 per pupil. PA 119 also appropriated and allocated for fiscal year 2000-2001 State Aid of approximately \$10.6 billion, most of which provided each local school district the State Aid portion of the school district's foundation allowance per membership pupil for the State's fiscal year 2000-2001. The PA 119 appropriation increased the 2000-2001 Basic Foundation Allowance per membership pupil to \$5,866 and increased the State Aid foundation payment for special education pupils to provide each local school district an amount equal to its 2000-2001 Foundation Allowance or \$7,366, whichever was less.

On July 26, 2000, the Governor signed Public Act 297 ("PA 297"), which amended the State School Aid Act to provide an increase in the 1999-2000 and the 2000-2001 Basic Foundation Allowance per membership pupil to \$5,700 (an additional \$4 per pupil) and \$6,000, respectively. PA 297 also established the basic foundation allowance figures for 2001-2002 and 2002-2003 as \$6,300 and \$6,700, respectively. Beginning in 2000-2001, there was a significant change in the methodology being used to make state school aid payments. In order to demonstrate the State's compliance with the Constitution, payments are made to districts (i) to meet the Proposal A obligation and (ii) to meet the special education *Headlee* obligation. In addition, "discretionary" payments are made in an amount such that, when added to the obligation payment amounts, would equal what the district would have received if the payment methodology had not changed. That is, the basic foundation allowance and district-specific foundation allowance increases are described in Section 20 of the State School Aid Act, with the basic foundations being \$6,000, \$6,300, and \$6,700 for Fiscal Year 2000-2001, 2001-2002, and 2002-2003, respectively. In addition there is a per pupil "equity" payment in fiscal year 2001-2002 in Section 22c for any district with a foundation allowance lower than \$6,500 in an amount sufficient to yield \$6,500 when added to the district's fiscal year 2001-2002 foundation. Formulas for calculating special education amounts remain in Section 51a. The calculated amounts in these sections are used in the determination of the district's discretionary payments described above.

On April 25, 2002, the Governor signed Public Act 191, which established the basic per pupil foundation allowance at \$6,700 for fiscal year 2002-03. On July 12, 2002, the Governor signed Public Act 503, which established the basic per pupil allowance at \$6,700 for fiscal year 2003-04. Unlike PA 297, Public Acts 191 and 503 contain no provision for any per pupil equity payment, because no school district has a foundation allowance lower than \$6,700 in fiscal years 2002-03 and 2003-04.

On November 15, 2000, more than 365 Michigan school districts and individuals filed *Adair, et al. v. State, et al.* ("Adair") in the Michigan Court of Appeals. In an amended complaint, the school district plaintiffs increased their number to 463.

The Adair plaintiffs assert 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 have requested declaratory relief, attorneys' fees and litigation costs, but do not seek a money judgment.

On April 23, 2002, the Court of Appeals dismissed the plaintiffs' complaint in Adair in its entirety and with prejudice. The Court held that all of the Adair plaintiffs were barred from prosecuting all but one of their claims by either the doctrine of res judicata or the principle of release. With regard to the remaining record-keeping claim, the Court held that this is not a new activity or an increase in the level of a state-mandated activity within the meaning of the Headlee Amendment. The Adair plaintiffs filed an application for leave to appeal and a motion for immediate consideration of the application for leave to appeal in the Michigan Supreme Court on May 14, 2002. On December 18, 2002 the Michigan Supreme Court granted the Adair plaintiffs' application for leave to appeal. The ultimate disposition of the Adair litigation is not presently determinable.

The statutorily prescribed schedule may, like the prior statutorily prescribed schedules, be changed by the State Legislature at any time. Moreover, the State Aid program could, subject to the provisions of the Constitutional Amendment, be changed by the Legislature at any time. Under the State's Constitution and State law, the State is required to maintain a balanced budget for any fiscal year. There is past precedent for (i) the State Treasurer giving advance notice to the State Budget Director if estimated school aid fund revenues and other dedicated funding would be insufficient to support appropriated State Aid amounts for a fiscal year, and (ii) for the State Budget Director, pursuant to Section 11(3) of the State School Aid Act, notifying the State Senate Majority Leader and the Speaker of the Michigan House of Representatives that beginning on a specified date a specified prorated reduction in a fiscal year would be applied to all spending categories except those specifically protected by law, unless legislation were enacted to reduce that fiscal year's school aid appropriations so as not to exceed the revised school aid revenue projections.

In any event, the enactment of such an appropriation bill, regardless of its effective date, would not impair the full faith and credit limited tax general obligation of each Governmental Unit with respect to its Municipal Obligation.

Property Tax Reform Proposals

From time to time proposals for further property tax reform in the State may be considered by the State Legislature or discussed in general. Some of those proposals, if enacted, could reduce the assessed value of property for purposes of ad valorem real and personal property taxation, or the amount of taxes which could be collected, or both. Some of the proposals, if adopted, could adversely affect either the amount of ad valorem tax revenues to be received by Governmental Units or the timing of such receipt. Any such plan, if adopted, could adversely affect the ability of Governmental Units to levy taxes, if necessary, in amounts sufficient to pay the principal of and interest on the School Program Bonds. The ultimate nature, extent and impact of any property tax reform measure cannot currently be predicted. Purchasers of the School Program Bonds offered herein should be alert to the potential effect of the enactment of any such measure upon the School Program Bonds and the security therefor.

Additional State Aid Obligations

Under State law, pledged State Aid may also be pledged for other obligations issued by a Governmental Unit. From July 1, 2002 through June 30, 2003, a Governmental Unit can issue additional obligations pledging its fiscal year 2002-03 State Aid payments in an amount which, together with the principal amount of all its other obligations pledging those State Aid payments, including the School Program Municipal Obligation, will not exceed 70% of the difference between the total State Aid funds apportioned to the Governmental Unit for its fiscal year 2002-03 and the portion it has already received or pledged, except for certain secondary pledges made pursuant to the School Code of 1976. Notwithstanding the foregoing, each Governmental Unit will, in its School Aid Pledge Agreement, agree that the amount of State Aid received by the Governmental Unit in the fiscal year of the State preceding the issuance of additional State Aid obligations must equal or exceed the amount required in each year to pay the sum of an amount equal to two (2) times the principal and interest on the School Program Municipal Obligations and the principal and interest on any additional bonds or notes or other obligations for which State Aid has been pledged.

Full Faith and Credit Pledge

The School Program Municipal Obligations are general obligations of the Governmental Units, secured by their respective full faith and credit, which includes each such Governmental Unit's limited tax obligation within applicable constitutional and statutory limits, and its general funds or unencumbered school district funds, as applicable. The respective Governmental Units do not have the power to levy additional taxes for the payment of their School Program Municipal Obligations in excess of those limits. Each Governmental Unit issuing a School Program Municipal Obligation is responsible for its proportional share of the Authority's costs of issuance with respect to the School Program Bonds. Each Governmental Unit is responsible for its own costs of issuance incurred in connection with the issuance of its School Program Municipal Obligation. For a discussion regarding the limitations on the authority of school districts to levy ad valorem property taxes for school operating purposes, see "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS - - School Program Municipal Obligations - *Sources of State School Aid*" above.

TAX MATTERS

General

In the opinion of the Attorney General of the State of Michigan and in the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, based on their examination of the documents described in their opinions, under existing law as presently interpreted, the interest on the Series Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Their opinions are subject to the condition that the Authority and the Governmental Units comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Series Bonds to be so included in gross income retroactive to the date of issuance of the Series Bonds. The Authority has covenanted to comply with all such requirements, to the extent permitted by law. The Attorney General and Bond Counsel express no opinion regarding other federal tax consequences arising with respect to the Series Bonds and the interest thereon. They are further of the opinion that under existing law as presently interpreted, the Series Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan except for estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

Additional federal tax consequences relative to the Series Bonds and the interest thereon include the following matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Series Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Series Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Series Bonds; (d) interest incurred or continued to purchase or carry the Series Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Series Bonds; (f) interest on the Series Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; (g) passive investment income including interest on the Series Bonds, may be subject to federal income taxation for S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporations is passive investment income; (h) holders acquiring the Series Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income and; (i) the receipt or accrual of interest on the Series Bonds may cause disallowance of the earned income credit under Section 32 of the Code.

Apportionment of Original Issue Discount

Under existing law as presently interpreted, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the (i) AMBAC Insured Bonds maturing November 1, 2010 through November 1, 2023, (ii) the Revenue Sharing Bonds, Group 1, maturing November 1, 2009 through November 1, 2018 and November 1, 2020 through November 1, 2023, (iii) the Revenue Sharing Bonds, Group 2, maturing November 1, 2009 through November 1, 2018, and (iv) the School Program Bonds maturing May 1, 2009 through May 1, 2011, together with the School Program Bonds maturing May 1, 2013 (collectively, the "OID Bonds") are sold and the amount payable at their maturity constitutes "original issue discount" for federal income tax purposes. Such original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner of an OID Bond. The original issue discount accrues over the term to maturity of each OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

A modification of the foregoing rules will generally apply to a Holder who acquired an OID Bond by "purchase" if the cost of the OID Bond to that purchaser exceeds the sum of (a) the original issue price of the OID Bond and (b) the total original issue discount accrued under the rules of the preceding paragraph during the entire period prior to the Holder's purchase of the OID Bond. In that case, the amount of the original issue discount considered to accrue in an accrual period will equal (i) the amount determined under the rules of the preceding paragraph reduced by (ii) the portion of such excess purchase price allocable to the days beginning on the date of such purchase and ending on the stated maturity date of the OID Bonds. Such excess would be allocated so as to equal a constant percentage of the original issue discount accrued on each such day in the remaining period to maturity as described above. For this purpose, a "purchase" is any acquisition of an OID Bond other than one in which the Holder's basis in such OID Bond is determined by reference to the basis of an OID Bond in the hands of the person from whom acquired (such as a gift).

Amortizable Bond Premium

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which the (i) AMBAC Insured Bonds maturing November 1, 2004 through November 1, 2009, (ii) the Revenue Sharing Bonds, Group 1, maturing November 1, 2004 through November 1, 2006, together with the Revenue Sharing Bonds, Group 1, maturing November 1, 2008, (iii) the Revenue Sharing Bonds, Group 2, maturing November 1, 2023, and (iv) the School Program Bonds maturing May 1, 2004 through May 1, 2008 (the "Premium Bonds"), are sold and the amount payable at maturity thereof (excluding stated interest thereon) constitutes for the original purchasers of the Premium Bonds an amortizable bond premium. Such amortizable bond premium is not deductible from gross income but is treated for federal incomes tax purposes as an offset of the amount of stated tax-exempt interest paid on the Premium Bonds, and is taken into account by certain corporations in determining adjusted current earnings for the purposes of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the yield to maturity determined by using the taxpayer's basis (for purposes of determining loss on sale or exchange) in such Premium Bonds and compounding at the close of each six-month accrual period. The basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such bonds.

Future Developments

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS WHICH COULD CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE HOLDERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE AUDIT PROCESS OR RESULT OF ANY EXAMINATION OF THE BONDS, OR OTHER BONDS WHICH PRESENT SIMILAR TAX ISSUES, WILL NOT AFFECT THE MARKET PRICE OF THE BONDS.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS, INCLUDING THE TREATMENT OF ORIGINAL ISSUE DISCOUNT AND AMORTIZABLE BOND PREMIUM, IF ANY.

LITIGATION

The Authority has not been served with any litigation, and to the best of the Authority's knowledge, there is no threatened litigation against the Authority seeking to restrain or enjoin the sale of the Series Bonds, affecting the security pledged therefor or questioning or affecting the validity of the proceedings or authority under which the Series Bonds were issued. Neither the creation, organization or existence of the Authority, nor the title of any of the present members or other officers of the Authority to their respective offices, is being contested. The Authority has not been served with any litigation and, to the best of the Authority's knowledge, there is no litigation threatened which in any manner questions the right of the Authority to adopt the Resolution or the Supplemental Resolution or to secure the Series Bonds in the manner provided in the Resolution, the Supplemental Resolution and the Act.

LEGALITY OF SERIES BONDS FOR INVESTMENT AND DEPOSIT

Under the Act, the State, a public officer, a Governmental Unit and agencies of the State or Governmental Units, a bank, trust company, savings bank or institution, savings and loan association, investment company or other person carrying on a banking business, an insurance company, insurance association, or other person carrying on an insurance business and an executor, administrator, guardian, trustee or other fiduciary may legally invest a sinking fund, money, or other funds belonging to them or within their control in bonds or notes of the Authority issued under the Act. The Act also provides that the Authority's bonds and notes shall be authorized security for public deposits.

STATE NOT LIABLE ON SERIES BONDS

The Series Bonds are limited obligations of the Authority payable solely from the sources described herein and neither the faith and credit nor the taxing power of the State, any political subdivision thereof or the Authority is pledged to the payment of the principal or redemption price of, interest on, or the purchase price of the Series Bonds.

The sources of payment for the Series Bonds are limited to those provided by the Act, and the issuance of the Series Bonds is not directly or indirectly or contingently an obligation, moral or other, of the

State, any political subdivision thereof or the Authority to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

CONTINUING DISCLOSURE UNDERTAKING

The Authority and, with respect to the AMBAC Insured Bonds, a certain Material Obligated Person, will covenant for the benefit of the Holders and the Beneficial Owners of the Series Bonds (as such terms are defined in the Continuing Disclosure Undertaking which the Authority and the Material Obligated Person each expects to execute on or before the date of delivery of the Series Bonds (the "Continuing Disclosure Undertakings"), to provide certain financial information and operating data by not later than nine months following the end of each fiscal year ending on or after January 1, 2003 (the "Annual Financial Information"), and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Undertakings require that the Annual Financial Information be filed with each Nationally Recognized Municipal Securities Information Repository (each a "NRMSIR") and the state information depository, if any (the "SID"). The Continuing Disclosure Undertakings also require that notices of material events be filed by the Authority with the SID and with either each NRMSIR or the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Financial Information or the notices of material events is set forth in "Appendix VII - Form of Continuing Disclosure Undertaking." These covenants have been made in order to assist the Underwriters named on the cover page of this Official Statement to comply with paragraph (b)(5) of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission.

The NRMSIRs as of the date of this Official Statement are Bloomberg Municipal Repository (Skillman, NJ), DPC Data Inc. (Fort Lee, NJ), FT Interactive Data (New York, NY), and Standard & Poor's J.J. Kenny Repository (New York, NY). The Michigan SID as of the date of this Official Statement is the Municipal Advisory Council of Michigan (Detroit, MI).

Except as described in the Continuing Disclosure Undertaking the provisions of the Continuing Disclosure Undertaking will create no rights in any other person or entity. The obligation of the Authority to comply with the provisions of the Continuing Disclosure Undertaking is enforceable by any Beneficial Owner of outstanding Subject Bonds (all as defined in the Continuing Disclosure Undertaking). The right to enforce the provisions of the Continuing Disclosure Undertaking are limited to a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Continuing Disclosure Undertaking. Any failure by the Authority to perform in accordance with the Continuing Disclosure Undertaking will not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default will not apply to any such failure.

The Authority is in compliance in all material respects with all previous undertakings with regard to the Rule to provide annual financial information or notices of material events pursuant to the Rule.

A failure by the Authority to comply with the undertaking must be reported by the Authority in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series Bonds in the secondary market. Consequently, such failure may adversely affect the marketability and liquidity of the Series Bonds and the market price therefor.

LEGAL MATTERS

The legality of the authorization, sale and delivery of the Series Bonds is subject to the approval of the Attorney General of the State and of Bond Counsel, whose approving opinions, substantially in the form attached as Appendix VI to this Official Statement, will be delivered upon the issuance of the Series Bonds. The fees to be received by the Bond Counsel in connection with the issuance of the Series Bonds will be paid from the proceeds of the Series Bonds and from investment earnings thereon.

Certain legal matters will be passed upon for the Underwriters by their counsel, Howard & Howard Attorneys, P.C., Lansing, Michigan.

RATINGS

Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") has assigned the Series Bonds the ratings set forth on the inside front cover page of this Official Statement. Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained from S&P. The Authority has furnished to S&P certain information and materials with respect to the Series Bonds. There is no assurance that the ratings which have been assigned to the Series Bonds will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P if in the judgment of such rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series Bonds.

Further information is available upon request from:

Standard & Poor's Ratings Services
55 Water Street
New York, NY 10041-0003
(212) 438-2000

UNDERWRITING

The Underwriters shown on the cover page of this Official Statement, have jointly and severally agreed, subject to the terms of a Purchase Contract between the Underwriters and the Authority dated September 19, 2003 to purchase the Series Bonds from the Authority. The Purchase Contract provides, in part, that the Underwriters, subject to certain conditions, will purchase from the Authority all the Series Bonds for a purchase price of \$19,408,531.40, which purchase price is equal to the par amount of the Series Bonds less \$113,763.70 net original issue discount and \$142,704.90, Underwriters' discount. The initial public offering prices of the Series Bonds may be changed from time to time by the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On or prior to the date of delivery of the Series Bonds, an independent certified public accountant will deliver a verification, in form satisfactory to the Authority and the Underwriters, of (i) the sufficiency of the anticipated cash flow from the Municipal Obligations to pay the principal of and interest on the Series Bonds and other bonds secured thereby; and (ii) the applicable yield or yields for the Series Bonds as determined pursuant to the Code.

OTHER MATTERS

Miller, Canfield, Paddock and Stone, P.L.C. and Howard & Howard Attorneys, P.C. have acted and may act as bond counsel to some of the Governmental Units in connection with their issuance and sale of Municipal Obligations to the Authority.

The Authority has appointed Stauder, BARCH & ASSOCIATES, INC., Ann Arbor, Michigan, as its Financial Advisor for the Series Bonds. Certain Governmental Units are presently clients of Stauder, BARCH & ASSOCIATES, INC. The fees of the Financial Advisor are contingent upon receipt of the Series Bond proceeds.

The summaries and explanations herein of provisions of the Act, the Resolution, the Supplemental Resolution and other materials are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to such instruments, documents and other materials for full and complete statements of the provisions thereof.

The information contained in this Official Statement has been compiled or prepared from sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The attached Appendices are an integral part of this Official Statement and must be read in their entirety together with all of the foregoing information.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

MICHIGAN MUNICIPAL BOND AUTHORITY

By: /s/ Janet Hunter Moore
Executive Director

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APPENDIX I

CERTAIN FINANCIAL INFORMATION AND OPERATING DATA CONCERNING THE STATE

The purpose of this Appendix is to provide certain financial information and operating data concerning the State to those considering the purchase of the Series Bonds described in the Official Statement. Certain general, economic and demographic information concerning the State is contained in Appendix II.

The Series Bonds are limited obligations of the Michigan Municipal Bond Authority (the "Authority") and not a debt of the State. However, as described in this Official Statement, the State provides substantial economic assistance to the Governmental Units whose Municipal Obligations are being purchased by the Authority. It is possible that the willingness of the State to provide such assistance in the future may be affected by the financial condition of the State. Moreover, the market for obligations of the Authority may be beneficially or adversely affected by financial circumstances of the State and its localities and authorities, and such factors could affect the marketability and market prices of the Authority's obligations.

Complete financial statements of all of the State's funds as included in the State of Michigan Comprehensive Annual Financial Report prepared by the State's Department of Management and Budget for fiscal years ended September 30, 2001 and 2002, which were released on March 29, 2002 and December 26, 2002, respectively, are available upon request from the Department of Management and Budget, Office of Financial Management, State of Michigan, Lansing, Michigan 48909; Telephone: (517) 373-1010, and may also be found at www.michigan.gov/budget, and have been filed with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository for Michigan.

The State of Michigan, Executive Budget of the Governor, Fiscal Year 2003-04 contains a discussion of recommended expenditures and revenues for fiscal year 2003-04. It also contains an economic forecast. Copies of the applicable budgetary and appropriation documents and executive orders relating to the budget may be obtained from the Department of Management and Budget, Office of the State Budget, P.O. Box 30026, Lansing, Michigan 48909; Telephone (517) 373-7560 and may also be found at www.michigan.gov/budget.

The information in this Appendix has been furnished by the State and reflects information as of the dated date thereof.

IN ADDITION TO FINANCIAL INFORMATION AND OPERATING DATA, THIS APPENDIX INCLUDES NARRATIVE AND CONTEXTUAL INFORMATION. THE AUTHORITY, IN ITS ANNUAL FINANCIAL INFORMATION (AS DEFINED UNDER "CONTINUING DISCLOSURE UNDERTAKING" IN THE OFFICIAL STATEMENT) WILL INCLUDE FINANCIAL INFORMATION AND OPERATING DATA OF THE TYPE CONTAINED IN THIS APPENDIX, BUT DOES NOT ANTICIPATE INCLUDING ALL OF THE NARRATIVE AND CONTEXTUAL INFORMATION CONTAINED IN THIS APPENDIX IN SUCH ANNUAL FINANCIAL INFORMATION.

TABLE OF CONTENTS

	<u>Page</u>
STATE AND STATE-RELATED INDEBTEDNESS	3
Certain Statutory and Constitutional Debt Provisions	3
General Obligation Bonded Indebtedness	3
School Bond Loan Program	6
Special Obligation Bonded Indebtedness	9
MAJOR FUNDS OF THE STATE	9
General Fund	10
The School Aid Fund	12
Common Cash Fund	12
Budget Stabilization Fund	13
STATE REVENUES AND EXPENDITURES	14
Constitutional Provisions Affecting State Revenues and Expenditures	14
Recent General Fund-General Purpose Financial Results	14
RETIREMENT FUNDS	17
General	17
Defined Benefit Pension Plans	17
Defined Contribution Retirement Plan	20

STATE AND STATE-RELATED INDEBTEDNESS

Certain Statutory and Constitutional Debt Provisions

The State Constitution limits State general obligation debt to (i) short-term debt for State operating purposes, (ii) short and long-term debt for the purpose of making loans to school districts, and (iii) long-term debt for voter-approved purposes.

Short-term debt for operating purposes is limited to an amount not to exceed 15 percent of undedicated revenues received during the preceding fiscal year. Under the State Constitution as implemented by statutory provisions, such debt must be authorized by the State Administrative Board and issued only to meet obligations incurred pursuant to appropriation and must be repaid during the fiscal year in which incurred. Such debt does not require voter approval.

The amount of debt incurred by the State for the purpose of making loans to school districts is recommended by the State Treasurer, who certifies the amounts necessary for loans to school districts. The bonds may be issued in whatever amount is required without voter approval. See "STATE AND STATE-RELATED INDEBTEDNESS -- School Bond Loan Program." All other general obligation bonds issued by the State must be approved as to amount, purpose and method of repayment by a two-thirds vote of each house of the Legislature and by a majority vote of the public at a general election. There is no limitation as to number or size of such general obligation issues.

There are also various State authorities and special purpose agencies created by the State which issue bonds secured by specific revenues. Such debt is not a general obligation of the State. The various types of debt are described in the following sections.

General Obligation Bonded Indebtedness

General Obligation Bonds and Notes

The State has issued and has outstanding general obligation full faith and credit bonds and notes for environmental and natural resource protection, recreation and school loan purposes. Table 1 below illustrates the existing debt service schedule for all State general obligation bonds as of September 30, 2002.

The State issued \$250 million in general obligation bonds in fiscal year 1997-98. The State did not issue any general obligation bonds in fiscal year 1998-99. The State issued \$96.9 million in general obligation bonds in fiscal year 1999-00, \$141.3 million in general obligation bonds in fiscal year 2000-01, and \$154.50 million in general obligation bonds in fiscal year 2001-02. The State also issued \$183.3 million in general obligation refunding bonds, which refunded \$184.09 million of prior bonds, in fiscal year 2000-01 and \$300.7 million in general obligation refunding bonds, which refunded \$306.4 million of prior bonds, in fiscal year 2001-02.

The State issued \$900 million in short-term general obligation notes in fiscal years 1996-97 and 1997-98. These notes were issued for cash flow purposes and were fully paid at maturity. The State did not issue any general obligation notes in fiscal years 1998-99, 1999-00, 2000-01 and 2001-02. On May 20, 2003, the State issued \$1,246.54 million in general obligation notes which mature on September 30, 2003.

The State Administrative Board has authorized the issuance of Multi-Modal General Obligation School Loan Bonds in the amount of \$325.0 million. There are as of May 30, 2003 \$274.9 million of such bonds outstanding. The State provides self liquidity on these bonds.

In August 2003, the State issued \$200,000,000 in general obligation bonds to finance projects under the Clean Michigan Initiative and Environmental Protection Program.

In addition, at the November 2002 general election, a majority of Michigan voters approved the issuance of \$1.0 billion in general obligation indebtedness to assist municipalities in financing water quality and water pollution control projects.

TABLE 1

**STATE OF MICHIGAN
EXISTING DEBT SERVICE SCHEDULE OF GENERAL OBLIGATION BONDS
AS OF SEPTEMBER 30, 2002
(Dollar Amounts in Thousands)**

<u>Year Ending Sept. 30,</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Annual Debt Service⁽¹⁾</u>	<u>Cumulative Debt Service</u>	<u>Cumulative %</u>
2003	\$ 25,759	\$ 52,469	\$ 78,228		
2004	27,501	55,219	82,720		
2005	52,678	53,593	106,271		
2006	59,908	49,770	109,678		
2007	60,745	49,390	110,135	\$ 487,032	30.10%
2008	65,029	45,172	110,201		
2009	65,327	44,953	110,280		
2010	68,413	42,072	110,485		
2011	76,256	34,324	110,580		
2012	77,150	33,502	110,652	\$1,039,230	64.23%
2013	88,530	22,196	110,726		
2014	90,035	17,415	107,450		
2015	89,470	12,613	102,083		
2016	64,090	8,482	72,572		
2017	44,240	5,750	49,990	\$1,482,051	91.60%
2018	25,915	4,527	30,442		
2019	35,535	3,051	38,586		
2020	34,760	1,712	36,472		
2021	29,935	524	30,459	\$1,618,010	100.00%
TOTAL⁽²⁾	<u>\$1,081,276</u>	<u>\$536,734</u>	<u>\$1,618,010</u>		

(1) May not add to total due to rounding.

(2) Totals include \$159.4 million in State of Michigan Multi-Modal General Obligation School Loan Bonds, assuming a 3.5% interest rate and maturing in years 2005 through 2021.

SOURCE: State Department of Treasury.

The following table illustrates the State general obligation bonds issued and maturing during each of the fiscal years ended September 30, 1998 through 2002 and the principal outstanding at the end of each such period.

TABLE 2

**STATE OF MICHIGAN
GENERAL OBLIGATION BONDS ISSUED, MATURED AND OUTSTANDING
AS OF SEPTEMBER 30, 1998 THROUGH 2002
(Dollar Amounts in Millions)**

Fiscal Year Ended September 30,	Bonds Issued	Bonds Matured or Refunded	Bonds Outstanding End of Period
1998	\$ 250.0	\$ 31.1	\$ 874.1
1999	0.0	34.7	839.4
2000	96.9	36.0	900.2
2001 ⁽¹⁾	324.6	226.5	998.3
2002 ⁽²⁾	<u>455.2</u>	<u>372.2</u>	1,081.3
TOTAL	<u>\$1,126.7</u>	<u>\$ 700.5</u>	

⁽¹⁾ Includes \$183.3 million in general obligation refunding bonds which refunded \$184.09 million of prior bonds.

⁽²⁾ Includes \$300.7 million in general obligation refunding bonds which refunded \$306.4 million of prior bonds.

SOURCE: State Department of Treasury.

TABLE 3

**DEBT SERVICE OF STATE GENERAL OBLIGATION BONDS
AS PERCENTAGE OF GENERAL PURPOSE PORTION OF GENERAL FUND
REVENUES AND OTHER FINANCING SOURCES
AS OF SEPTEMBER 30, 1998 THROUGH 2002
(Dollar Amounts in Millions)**

Debt Service of General Obligation Bonds:	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Provided by the General Fund	\$ 63.1	\$ 79.3	\$ 84.9	\$ 90.7	\$ 98.5 ⁽¹⁾
Provided by School District Repayments to the General Fund ⁽²⁾	<u>0.7</u>	<u>0.4</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
Total Debt Service	\$ 63.8	\$ 79.7	\$ 85.6	\$ 91.4	\$ 99.2
 General Purpose Portion of General Fund Revenues	 <u>\$8,673.4</u>	 <u>\$9,322.6</u>	 <u>\$9,599.4</u>	 <u>\$8,885.4</u>	 <u>\$8,324.3</u>
 Debt Service as Percent of General Purpose Portion of General Fund Revenues	 0.7%	 0.9%	 0.9%	 1.0%	 1.2%

⁽¹⁾ Includes approximately \$2.5 million provided by refunding bond proceeds.

⁽²⁾ Payments received from local school districts on their outstanding School Bond Loans.

School Bond Loan Program

The State may issue notes or bonds without voter approval for the purpose of making loans to school districts. The net proceeds of such notes and bonds are deposited in the School Bond Loan Fund maintained by the State Treasurer and used to make loans to school districts for payment of debt service on general obligation qualified bonds issued by local school districts for capital improvements.

The bonds of any school district may be "qualified" by the State Treasurer upon satisfying the specified requirements as to need for the improvements, reasonableness of cost, bond amounts and maturity dates and other matters. Most school district bonds issued since the program began in 1955 have been "qualified" for participation in the School Bond Loan Fund Program. See Tables 4 and 5 for information concerning outstanding "qualified" local school district bonds.

If the minimum amount which a school district would otherwise have to levy in any year to pay principal and interest on its "qualified" bonds exceeds 13 mills, or such lesser millage rate as may be provided by statute, the school district may elect to borrow the excess from the State. So long as a school district levies at or in excess of this limit, it is not required to repay its loan from the State and the loan continues to accrue interest. In addition, every "qualified" school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event moneys are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to provide funds to the School Bond Loan Fund in amounts necessary to make the loans. A school district with a State loan must continue to levy each year

not less than the set limit for debt service until, from the excess thereof over debt service for its qualified bonds, it has repaid its State loans with interest. All or part of this levy requirement may be waived under certain circumstances. The conditions for qualification of school district bonds and minimum levy for debt service provided by statute have been changed by the Legislature from time to time and may be changed in the future. In the event that the Legislature should increase the minimum levy for debt service to a level above that required to meet a school district's debt service payments, any excess would then be required to be paid to the State for loan repayment. Pursuant to Article IX, Section 16 of the Constitution of Michigan, this levy cannot be required to be in excess of 13 mills. As of December 31, 2002, outstanding principal of and interest on school district loans from the School Bond Loan Fund totaled approximately \$608.1 million. Any money repaid by school districts on loans made from the School Bond Loan Fund shall be deposited in the State's General Fund.

The following table reflects the level of outstanding "qualified" bonds of local school districts, new bond issues marketed and bonds retired at maturity, called or repurchased prior to stated maturity during the past five years.

TABLE 4

**LOCAL SCHOOL DISTRICT BONDS
"QUALIFIED" UNDER STATE SCHOOL BOND LOAN PROGRAM
BONDS ISSUED, RETIRED AND OUTSTANDING
(Dollar Amounts in Thousands)**

<u>Year Ended December 31,</u>	<u>Bonds Issued</u>	<u>Bonds Retired</u>	<u>Bonds Outstanding End of Period</u>
1998	\$2,063,971	\$1,183,925	\$ 8,176,351
1999	1,231,975	649,709	8,758,617
2000	1,382,605	367,432	9,773,790
2001	2,220,670	779,747	11,214,713
2002	1,979,005	991,323	12,202,395

SOURCE: Municipal Advisory Council of Michigan.

As of December 31, 2002, as shown in Table 5 approximately \$12.2 billion in principal amount of "qualified" bonds of local school districts were outstanding. In the past 30 years, the State has been required only once to advance moneys from the State School Bond Loan Fund to make a debt service payment on behalf of a school district, other than for routine loans. In that case the tax collections available to the school district for payment of debt service were escrowed on the due dates because of litigation. After the litigation was completed, the escrowed funds were paid in full to the State School Bond Loan Fund to satisfy in full the moneys advanced by the State.

Effective for qualified bonds issued on or after October 1, 1998, the State implemented strengthened program mechanics which require advance fund transfers by school districts and paying agent notification prior to qualified bond debt service payment dates. These new procedures further ensure that qualified bond obligations are paid on a timely basis.

TABLE 5

**LOCAL SCHOOL DISTRICT BONDS
"QUALIFIED" UNDER STATE SCHOOL BOND LOAN PROGRAM
TOTAL DEBT SERVICE AS OF DECEMBER 31, 2002
(Dollar Amounts in Thousands)**

<u>Year Ending December 31,</u>	<u>Principal Due</u>	<u>Interest⁽¹⁾</u>	<u>Annual Debt Service⁽¹⁾</u>	<u>Cumulative Debt Service</u>	<u>Percent of Total</u>
2003	\$ 466,710	\$ 611,297	\$ 1,078,007		
2004	468,374	642,637	1,111,011		
2005	481,770	629,278	1,111,048		
2006	505,125	596,335	1,101,460		
2007	526,492	540,917	1,067,409	<u>\$ 5,468,935</u>	<u>26.50%</u>
2008	535,099	540,054	1,075,153		
2009	553,034	516,369	1,069,403		
2010	561,835	490,311	1,052,146		
2011	570,670	464,874	1,035,544		
2012	570,910	440,737	1,011,647	<u>\$ 10,712,828</u>	<u>51.91%</u>
2013	578,817	396,137	974,954		
2014	567,683	383,685	951,368		
2015	572,815	320,826	893,641		
2016	557,156	322,933	880,089		
2017	544,572	274,055	818,627	<u>\$15,231,507</u>	<u>73.81%</u>
2018	524,756	236,413	761,169		
2019	494,044	213,147	707,191		
2020	452,866	190,524	643,390		
2021	424,328	160,670	584,998		
2022	382,809	112,884	495,693	<u>\$18,423,948</u>	<u>89.28%</u>
2023	309,495	92,393	401,888		
2024	282,805	69,158	351,963		
2025	261,485	55,837	317,322		
2026	228,445	43,517	271,972		
2027	194,890	33,066	227,956	<u>\$19,995,049</u>	<u>96.89%</u>
2028	162,625	24,308	186,933		
2029	149,830	16,621	166,451		
2030	128,740	9,921	138,661		
2031	107,340	4,305	111,645		
2032	<u>36,865</u>	<u>835</u>	<u>37,700</u>	<u>\$20,636,439</u>	<u>100.00%</u>
TOTAL	<u>\$12,202,395</u>	<u>\$8,434,044</u>	<u>\$20,636,439</u>		

⁽¹⁾ May not add to totals due to rounding.

SOURCE: Municipal Advisory Council of Michigan.

TABLE 6

**STATE OF MICHIGAN GENERAL OBLIGATION DEBT
AS OF SEPTEMBER 30, 2002
(Dollar Amounts in Thousands)**

	Total Authorization	Remaining Authorization	Outstanding Balance
General Obligation Notes ⁽¹⁾			\$ -0-
Environmental Protection Bonds	\$660,000	\$113,411 ⁽³⁾	453,816
Recreation Bonds	140,000	-0-	34,750
School Loan Bonds and Notes	(2)	(2)	448,290
Clean Michigan Initiative Bonds	675,000	521,380 ⁽⁴⁾	144,420
Great Lakes Water Quality Bonds	1,000,000	1,000,000	-0-
TOTAL GENERAL OBLIGATION DEBT			<u>\$1,081,276</u>

(1) In each fiscal year the State may borrow an amount no greater than 15 percent of the preceding year's undedicated revenues. The notes must be redeemed in the same fiscal year they are issued.

(2) No limit established by law.

(3) This figure assumes that approximately \$76.1 million of the proceeds of the State's Environmental Protection Bonds issued in 1995, \$86.1 million of the proceeds of the State's General Obligation Refunding Bonds issued in 2001, and \$132.8 million of the proceeds of the State's General Obligation Refunding Bonds issued in 2002, which were used to advance refund previously outstanding Environmental Protection Bonds, are not counted against the State's remaining authorization.

(4) This figure assumes that approximately \$59.8 million of the proceeds of the State's General Obligation Refunding Bonds issued in 2002, which were used to advance refund previously outstanding Clean Michigan Initiative Bonds, are not counted against the State's remaining authorization.

SOURCE: State Department of Treasury.

Special Obligation Bonded Indebtedness

State-Related Revenue and Special Obligation Debt

The Department of Transportation, State Building Authority, the Michigan Underground Storage Tank Financial Assurance Authority and Michigan State Housing Development Authority have outstanding as of September 30, 2002, \$6,492.7 million of various revenue and special obligation debt and have the authority to issue such debt in the future.

MAJOR FUNDS OF THE STATE

State financed operations are accounted for in numerous separate funds. The major funds of the State are described below.

General Fund

The General Fund receives those revenues of the State not specifically required to be included in other funds. General Fund revenues are obtained approximately 49 percent from the payment of State taxes and 51 percent from federal and non-tax revenue sources. General Fund revenues are segregated into two categories for accounting purposes: General Purpose and Special Purpose. The General Purpose category is comprised of those revenues on which no restrictions on use apply. The Special Purpose category is comprised of revenues designated for specific purposes and includes a portion of certain major taxes and most federal aid. Because expenditures are accounted for on a consolidated basis, it is not possible to segregate expenditures as related to the General Purpose portion or Special Purpose portion of total General Fund expenditures. Expenditures are not permitted by the State Constitution to exceed available revenues.

Sources of General Purpose Revenues

General Purpose revenues consist primarily of that portion of taxes and federal aid not dedicated to any specific purpose. General Purpose revenues account for approximately 39 percent of total General Fund revenues. The passage of Proposal A, which is discussed under "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II, significantly affects the sources of State revenues. The following sections describe the tax rates and structures on which current revenues, as described in Table 10, are based. Proposal A modifies these rates and structures and investors should review "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II for a description of these modifications. In 1999, the Michigan legislature adopted legislation reducing the Individual Income Tax and Single Business Tax.

Sales Tax - The State currently levies a 6 percent sales tax on retail sales with certain exceptions for items such as food and prescription drugs. A constitutional amendment is required to increase the sales tax rate. A ballot proposal approved by the electorate on March 15, 1994, increased the sales tax rate from 4 percent to 6 percent and constitutionally dedicated revenues from the 2 percentage point rate increase to the School Aid Fund. Of the remaining sales tax revenues generated by the 4 percentage point rate, 36 percent of collections is classified as Special Purpose revenue and is distributed to local units of government for general operating purposes as a part of the State's revenue-sharing program and 60 percent of collections is distributed to the School Aid Fund for operating aid to local school districts in the State. The remaining sales tax revenue raised by the 4 percent is deposited into the General Fund, except for sales tax generated by automotive-related sales. For sales taxes levied on automotive related purchases, 27.9 percent of one-quarter of the 4 percent sales tax is deposited into the Comprehensive Transportation Fund.

Use Tax - A 6 percent tax is currently levied by the State for the privilege of using, storing and consuming tangible personal property, services of intrastate telephone, telegraph or other leased wire communications, transient hotel and motel rooms and rentals of tangible personal property. A ballot proposal approved by the electorate on March 15, 1994, increased the use tax from 4 percent to 6 percent and constitutionally dedicated the 2 percentage point rate increase to the School Aid Fund. The other 4 percent is deposited in the General Fund.

Personal Income Tax - The State levies a flat rate tax on the adjusted gross income of individuals, estates, and trusts. The income tax rate was 4.4 percent for tax years 1995 through 1999. The rate was reduced to 4.2 percent for tax years 2000 and 2001 and to 4.1 percent for 2002. Further reductions in the rate are being phased-in with the rate falling to 4.0 percent in 2003 and 3.9 percent in 2004. Revenue from the tax is dedicated to the General Fund. Effective October 1, 1996, 23 percent of gross income tax collections before refunds were earmarked to the School Aid Fund. The percentage

earmarked to the School Aid Fund is rising in proportion to the rate cuts so that the School Aid Fund earmarking is not decreasing.

Single Business Tax - In 1976, the State replaced its then existing business tax structure, which included corporate income taxes, various franchise and special business fees and local property taxes on inventories, with the Single Business Tax (SBT). The SBT is a value-added tax imposed on all business activities with annual adjusted gross receipts of \$350,000 or more. A value-added tax has several purposes. By reducing the tax on capital, the SBT increases the return on capital investment, thus serving as an incentive for capital investment which creates new jobs. The SBT also stabilizes tax revenues because approximately 70 percent of the SBT tax base is related to labor costs, which fluctuate less than profits. Firms that do business in states other than Michigan apportion their tax base using a formula that weights the sales factor by 90 percent and the payroll and property factors by 5 percent each.

In 1999, legislation was passed completely phasing out the SBT. Effective January 1, 1999, the SBT rate was reduced from 2.3 percent to 2.2 percent and was to be reduced annually by 0.1 percentage point each January 1 until the tax was completely eliminated. The 1999 legislation also replaced the SBT's capital acquisition deduction with an investment tax credit. The annual rate reduction does not occur if the Countercyclical Budget and Economic Stabilization Fund (BSF) balance for the prior fiscal year is \$250 million or less. SBT rate reductions cease until the BSF fiscal year ending balance returns to a level above \$250 million. The BSF balance fell below the \$250 million threshold at the end of the State's 2002 fiscal year. As a result, the SBT did not fall on January 1 of 2003 and will remain at its current rate of 1.9 percent until the BSF balance goes back above \$250 million. Legislation was enacted in the summer of 2002 repealing the SBT for tax years beginning after December 31, 2009.

Other Taxes - Other taxes levied by the State include a six mill (reduced by law to five mill for 2003 only) statewide tax on property, a tax on real estate transfers, various motor fuel taxes, and a number of smaller taxes. Some of the smaller taxes are General Purpose revenues. Michigan levies a tax on beer and wine, and has three four percent liquor taxes. One four percent liquor tax is dedicated to the School Aid Fund, one is dedicated to the General Fund, and one is returned to Michigan's counties. Michigan's cigarette tax was raised from \$0.75 per pack to \$1.25 per pack effective August 1, 2002. Michigan's cigarette tax is distributed 33.0 percent to the General Fund and 54.2 percent to the School Aid Fund, with the remainder divided between various health programs and local units of government. For fiscal years 2005 through 2007, a portion of the General Fund proceeds from the cigarette tax will be deposited into the State's Budget Stabilization Fund.

Sources of Special Purpose Revenues

Special Purpose revenues consist primarily of federal aid, taxes and other revenues dedicated to specific purposes. Special Purpose Revenues account for approximately 61 percent of total General Fund revenues.

Federal aid accounted for approximately 76 percent of Special Purpose revenues. It is estimated that approximately three-fourths of the State's federal aid revenues require matching grants by the State. The percentage of State funds to total expense in programs requiring matched funds varies generally between 10 and 50 percent.

Expenditures

Approximately two-thirds of total General Fund expenditures are made for education, and by the Family Independence Agency and by the Department of Community Health.

State support of public education consists of aid to local and intermediate school districts, charter schools, state universities, community colleges, and the Department of Education, which is responsible for administering a variety of programs which provide additional special purpose funding for local and intermediate school districts.

The Family Independence Agency and the Department of Community Health administer economic, social and medical assistance programs, including Medicaid and the Temporary Assistance to Needy Families ("TANF") block grant, which represent the major portion of social services expenditures. The TANF grant requires state contributions tied to a 1994 maintenance of effort level. The Medicaid program continues on a matching basis, i.e., with federal funds supplying more than 50 percent of the fund.

The School Aid Fund

Sources of Revenue

Under constitutional and statutory provisions, the School Aid Fund has received the proceeds of certain taxes. For a discussion of constitutional and legislative changes which significantly change the sources of revenue of the School Aid Fund, see "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II.

Because the School Aid Fund receives almost all its direct revenues from the sources which also provide revenues for the General Fund and a General Fund appropriation is made to the School Aid Fund each year, the daily management of the State Treasurer's Common Cash Fund is predicated in part on daily projections of estimated cash flow of the combined General Fund and School Aid Fund. See "MAJOR FUNDS OF THE STATE -- Common Cash Fund."

The operating costs of local school districts are funded by local property taxes and State school aid. Approximately 8 percent of the annual debt service of "qualified" bonds issued by local school districts is funded by borrowing from the State School Bond Loan Fund, with the balance of the annual debt service of both "qualified" and "non-qualified" bonds funded from local property taxes.

Expenditures

The School Aid Fund finances State expenditures in the form of financial assistance to public elementary and secondary and intermediate school districts ("K-12 districts"). For a discussion of constitutional and legislative changes which significantly impact school finance, see "MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM" in Appendix II.

Common Cash Fund

The Common Cash Fund, which is managed by the State Treasurer, pools the combined cash balances of State moneys until paid out as provided by law, including the General Fund and the School Aid Fund, but not certain trusts funds and funds covering the operations of State authorities, colleges and universities. State law authorizes the State Treasurer, with the approval of the State Administrative Board, to transfer cash on hand and on deposit among the various funds (other than certain bond-related funds) to best manage the available cash on hand and to assure that State obligations are paid as they become due. As a result, certain funds may have a negative cash balance for periods of time. All funds with negative balances are required to pay interest on such balances at a rate equal to the average interest earned by the Common Cash Fund on its investments. Allocations of earnings are made quarterly, based upon the average daily balances of the various funds and the common cash investment earnings rate.

The following table sets forth the actual balances for funds in the Common Cash Fund as of September 30, 1998 through 2002. Except for the Budget Stabilization Fund, the cash balances in the funds in the Common Cash Fund can vary on a daily basis.

TABLE 7
COMMON CASH FUND BALANCES
AS OF SEPTEMBER 30, 1998 THROUGH 2002
(Dollar Amounts in Millions Reported on a Cash Basis)

<u>September 30,</u>	Combined General Fund And School Aid Fund	Budget Stabilization Fund	Other Funds⁽¹⁾	Retirement Funds⁽²⁾ Invested Short-Term	Bond Funds⁽³⁾	Total Common Cash
1998	\$ 136.0	\$1,000.5	\$1,426.3	\$140.3	\$264.2	\$2,967.3
1999	1,068.3	1,222.5	1,423.9	142.9	130.2	3,987.8
2000	1,631.6	1,264.4	1,996.1	186.2	153.4	5,231.7
2001	1,091.5	994.2	1,782.5	143.1	578.2	4,589.5
2002	454.7	145.2	1,776.3	121.8	518.2	3,016.2

(1) Other Funds include Internal Service, Enterprise, Trust and Agency and Restricted Revenue Funds and State Building Authority Advance Financing Funds.

(2) Retirement Funds include the retirement funds supported by State appropriations. Such funds are generally invested short-term, pending eventual long-term investment decisions. The retirement funds supported by State appropriations purchase short-term investments outside the Common Cash Fund. Such outside investments totaled \$2,286.1 million on September 30, 1998, \$2,084.4 million on September 30, 1999, \$2,638.5 million on September 30, 2000, \$3,218.6 million on September 30, 2001 and \$794.8 million on September 30, 2002.

(3) Includes Debt Service Funds and Bond Funds. Bond Funds and Debt Service Funds may not be used to offset negative cash balances in other funds.

SOURCE: State Department of Treasury.

Budget Stabilization Fund

In 1977, the State enacted legislation which created the Counter-Cyclical Budget and Economic Stabilization Fund ("BSF"). This fund is designed to accumulate balances during years of significant economic growth which may be utilized in years when the State's economy experiences cyclical downturns or unforeseen fiscal emergencies. Calculated on an accrual basis, the unreserved ending balance of the BSF was \$1,000.5 million on September 30, 1998, \$1,222.5 million on September 30, 1999, \$1,264.4 million on September 30, 2000, \$994.2 million on September 30, 2001 and \$145.2 million on September 30, 2002.

Currently enacted legislation authorizes withdrawals of up to \$239.0 million during fiscal year 2002-03.

STATE REVENUES AND EXPENDITURES

Constitutional Provisions Affecting State Revenues and Expenditures

In 1978 the State Constitution was amended to limit the amount of total State revenues raised from taxes and other sources. State revenues (excluding federal aid and revenues for payment of principal and interest on general obligation bonds) in any fiscal year are limited to a fixed percentage of State personal income in the prior calendar year or average of the prior three calendar years, whichever is greater. The percentage is fixed by the amendment to equal the ratio of the 1978-79 fiscal year revenues to total 1977 State personal income. If any fiscal year revenues exceed the revenue limitation by one percent or more, the entire amount of such excess shall be rebated in the following fiscal year's personal income tax or single business tax. Any excess of less than one percent may be transferred to the State's Budget Stabilization Fund.

The State may raise taxes in excess of the limit for emergencies when deemed necessary by the Governor and two-thirds of the members of each house of the Legislature.

The State Constitution provides that the proportion of State spending paid to all units of local government to total State spending may not be reduced below the proportion in effect in the 1978-79 fiscal year. The State originally determined that proportion to be 41.6 percent. Effective with fiscal year 1992-93, a recalculation was made of the base year proportion as a consequence of a settlement agreement reached on the *County of Oakland v. State of Michigan* lawsuit, which was settled in 1991. The recalculated base year proportion is 48.97%. If such spending does not meet the required level in a given year, an additional appropriation for local governmental units is required by the "following fiscal year," which means the year following the determination of the shortfall, according to an opinion issued by the State's Attorney General. The State Constitution also requires the State to finance any new or expanded activity of local governments mandated by State law. Any expenditures required by this provision would be counted as State spending for local units of government for purposes of determining compliance with the provision cited above. Spending for local units met this requirement for fiscal years 1993-94 through 2001-02.

Recent General Fund-General Purpose Financial Results

The actual General Fund-General Purpose beginning balances for fiscal years 1997-98 through 2001-2002 are set forth in Table 8 below. The State Constitution requires that any prior year's surplus or deficit in any fund be included in the succeeding year's budget for that fund.

TABLE 8

**GENERAL FUND - GENERAL PURPOSE REVENUES
(Dollar Amounts in Millions)**

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>
Beginning Balance:	(\$100.8) ⁽⁴⁾	\$ 55.2 ⁽⁵⁾	\$ 0.0 ⁽⁶⁾	\$211.8 ⁽⁷⁾	\$28.1
Revenues by Major Source:					
Taxes:					
Personal Income (Less Refunds)	\$4,547.3	\$4,993.7	\$5,132.2	\$4,756.2	\$4,218.6
Single Business	2,320.5	2,283.0	2,323.3	2,021.4	1,982.3
Cigarette Excise	139.8	152.0	148.8	146.2	194.9
Sales	90.6	129.2	148.5	76.1	129.1
Use	765.6	854.2	896.0	887.5	868.3
Insurance Company Taxes	142.5	133.7	191.9	200.7	227.1
Other Taxes	<u>532.7</u>	<u>564.2</u>	<u>581.8</u>	<u>599.5</u>	<u>522.2</u>
Total Tax Revenue	<u>\$8,538.9</u>	<u>\$9,110.0</u>	<u>\$9,422.6</u>	<u>\$8,687.6</u>	<u>\$8,142.4</u>
Non-Tax Revenues:					
Federal Aid	\$ 44.4	\$ 80.6	\$ 33.0	\$ 24.6	\$ 24.7
Other Non-Tax Revenues	<u>90.1</u>	<u>132.0</u>	<u>143.7</u>	<u>173.2</u>	<u>157.2</u>
Total Non-Tax Revenues	<u>\$ 134.5</u>	<u>\$ 212.6</u>	<u>\$ 176.8</u>	<u>\$ 197.8</u>	<u>\$ 181.9</u>
Total Revenues	<u>\$8,673.4</u>	<u>\$9,322.6</u>	<u>\$9,599.4</u>	<u>\$8,885.4</u>	<u>\$8,324.3</u>
Other Resources:					
BSF Transfers	\$ 0.0	\$ 0.0	\$ 0.0	\$ 270.0	\$ 452.8
Other	<u>237.0</u>	<u>295.2</u>	<u>253.2</u>	<u>259.0</u>	<u>504.3</u>
Total Other Resources	<u>\$ 237.0</u>	<u>\$ 295.2</u>	<u>\$ 253.2</u>	<u>\$ 529.0</u>	<u>\$ 957.1</u>
Total Available Resources ⁽¹⁾	<u>\$8,809.6</u>	<u>\$9,673.0</u>	<u>\$9,852.6</u>	<u>\$9,626.2</u>	<u>\$9,309.6</u>
Expenditure by Major Category:					
Education	\$2,243.3	\$2,338.8	\$2,434.8	\$2,518.8	\$2,365.8
Public Protection	1,536.6	1,585.4	1,804.5	1,967.2	1,922.7
Community Health	2,431.0	2,556.2	2,559.5	2,688.9	2,484.3
Family Independence Agency	1,013.9	1,103.8	1,176.3	1,253.5	1,190.0
Capital Outlay	241.6	302.8	386.3	320.2	360.2
General Government	763.1	1,096.4	912.6	1,019.8	894.7
Debt Service	<u>93.5</u>	<u>79.8</u>	<u>84.9</u>	<u>90.7</u>	<u>96.0</u>
Total Expenditures ^(2, 3)	<u>\$8,323.0</u>	<u>\$9,063.2</u>	<u>\$9,358.9</u>	<u>\$9,859.2⁽⁸⁾</u>	<u>\$9,313.8⁽⁸⁾</u>

Components may not add to total due to rounding.

- (1) Includes prior year ending balances carried forward into the succeeding year. The State's carry forward process is described in the State's Comprehensive Annual Financial Report.

- (2) "Expenditure" amounts are as set forth in current law appropriations and supplemental appropriations bills passed by both the State House and Senate and signed by the Governor. Expenditure amounts for 1997-98, 1998-99, 1999-00, 2000-01 and 2001-02 are shown on a consistent basis.
- (3) The gross difference between Total Available Resources and Total Expenditures includes both reserved and unreserved portions of the General Fund balance. The reserved portion includes both budgetary carry forwards which continue to be available in the subsequent year and noncurrent assets which by their nature are not available for expenditure until subsequent years and are not reflected in the beginning fiscal year fund balance. Unreserved fund balances are detailed in the appropriate year's footnote.
- (4) The unreserved fund balance at the close of fiscal year 1996-97 was \$53.3 million; however, the General Fund did not reflect Medicaid expenditures of \$178.7 million and federal revenue of \$24.6 million. Because this error was noted during fiscal year 1997-98, the General Fund's beginning balance was reduced by \$154.1 million.
- (5) By statute, the unreserved fund balance of \$158.5 million at the final close of fiscal year 1997-98 had the following disposition: \$5.0 million was distributed for art, cultural, and quality of life projects; \$10.0 million for federal conservation enhancement programs; \$0.5 million for tax simulation models; and \$87.8 million for the design and construction of the new state courthouse; the remaining amount, \$55.2 million, was transferred to the State's Budget Stabilization Fund in fiscal year 1998-99.
- (6) By statute, the unreserved fund balance of \$302.9 million at the close of fiscal year 1998-99 had the following disposition: \$18.6 million provided for a public safety communications system project; \$95.1 million funded the Ypsilanti forensic center project; a remaining amount of \$189.2 million was transferred to the State's Budget Stabilization Fund.
- (7) The unreserved fund balance at the close of fiscal year 1999-2000 was \$211.8 million.
- (8) The fiscal year 2000-01 budget was balanced as required by the Michigan Constitution. Expenditures for any fiscal year may include prior appropriation year expenditures. Appropriations are made for a fiscal year, but may be expended over a number of appropriation years. For fiscal year 2000-01, the reported expenditures of \$9,859.2 million include \$253.2 million that was appropriated for prior fiscal years; funds expended that were appropriated for the 2000-01 fiscal year were \$9,606.0 million. For fiscal year 2001-02, the reported expenditures of \$9,313.8 million include \$257.4 million that was appropriated for prior fiscal years.

SOURCE: State Departments of Treasury and Management and Budget.

RETIREMENT FUNDS

General

A description of the State's defined benefit and defined contribution pension plans are set forth below. Details regarding the State's other post employment benefits, and their funding methodologies, are contained in the State's Comprehensive Annual Financial Report.

Defined Benefit Pension Plans

The State makes legally required contributions to all of the following defined benefit pension plans except for the Public School Employees' Retirement System (a cost-sharing, multiple-employer system):

- Legislative Retirement System (LRS);
- State Police Retirement System (SPRS);
- State Employees' Retirement System (SERS);
- Public School Employees' Retirement System (MPSERS);
- Judges' Retirement System (JRS); and
- Military Retirement Plan (MRP).

The contributions for probate judges in the Judges' Retirement System are non-employer contributions to cost-sharing multiple-employer defined benefit pension systems. The contributions to all other systems are employer contributions to defined benefit systems. However, the State does not make actuarially computed contributions to the MRP. MRP benefits, which are funded on the pay-as-you-go basis, are paid from the General Fund. Contribution rates, for the retirement system, other than the MRP, are set forth below.

An actuarial valuation by an independent actuarial consulting firm is conducted annually for all the State retirement systems, other than the MRP which is conducted bi-annually. An actuarial experience study of the years 1992 through 1997 was completed for SERS, MPSERS, SPRS and JRS. As a result of the study, various tables and assumptions were changed to more accurately reflect the experience of the systems. The rates for fiscal year 2002 reflect these changes.

The following table summarizes the actuarial assumptions of the retirement systems, other than the MRP, as of September 30, 2002 including the aforementioned changes. Contribution rates are those recommended by the actuary for fiscal year 2002 in the September 2001 actuarial report.

TABLE 9

**STATE RETIREMENT SYSTEMS
CONTRIBUTION RATES AND
ACTUARIAL ASSUMPTIONS**

	<u>MPSERS</u>	<u>SERS</u>	<u>SPRS</u>	<u>LRS</u>	<u>JRS</u>
FY 2002-03 Required Contribution Rate:⁽²⁾					
State	6.94%	4.82%	18.56%	0%	(1.12)%
Plan Members	3.89% ⁽¹⁾	--	--	0%	5.95%
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level percent closed	Level percent Closed	Level percent closed	Level percent open	Level percent closed
Remaining Amortization Period	34 years	34 years	34 years	12 years	34 years
Asset Valuation Method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial Assumptions:					
Inflation Rate	4%	4%	4%	4%	4%
Investment Rate of Return	8%	8%	8%	7%	8%
Projected Salary Increases	4-13.5%	4-16%	4.7-84%	4%	4.5%
Cost-of-Living Adjustments	3% annual non- compounded for MIP members	3% annual non- compounded maximum increase of \$300	2% annual non- compounded maximum annual increase of \$500	4%	None

⁽¹⁾ For those members who elect to participate in the "Member Investment Plan," the rate is 3.9%. Members hired after December 31, 1989 are required to participate in the Member Investment Plan, and their contribution rate varies from 3.0-4.3 percent as salary increases.

⁽²⁾ The contribution rates do not include health benefits, which are paid on a modified pay-as-you-go basis. Legislators make a 7 to 9 percent annual contribution to a Health Insurance Reserve Fund.

Michigan's Constitution requires funding for unfunded prior service costs, which is implemented by State law. For this purpose, the State does not follow Financial Accounting Standard Board Statements #35 and 36 ("FASB 35 and 36") but effective October 1, 1996, has adopted GASB 25 and 27. In conjunction with the adoption of GASB 27, pension obligations (assets) of \$(.5) million, \$14.0 million, \$(18.0) million, and \$3.8 million were determined at October 1, 1996 for the LRS, SPRS, SERS, and MRP retirement plans, respectively. As a result, a net pension obligation of \$17.8 million was reported in the General Long-Term Obligations as of October 1, 1996. GASB 25 applies to the individual retirement plans and their financial statements. Their assets are stated at market value.

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

TABLE 10
STATE RETIREMENT SYSTEMS
UNFUNDED ACCRUED ACTUARIAL LIABILITY⁽¹⁾
(Dollar Amounts in Millions)

<u>Retirement Fund</u>	<u>Sept. 30, 1998</u>	<u>Percent Funded</u>	<u>Sept. 30, 1999</u>	<u>Percent Funded</u>	<u>Sept. 30, 2000</u>	<u>Percent Funded</u>	<u>Sept. 30, 2001</u>	<u>Percent Funded</u>	<u>Sept. 30, 2002</u>	<u>Percent Funded</u>
MPSERS	\$993.0	97.0	\$253.0	99.3	\$246.2	99.3	1,374.6	96.5	3,575.0	91.5
SERS	(612.0)	107.2	(619.8)	106.9	(863.0)	109.1	(754.5)	107.6	(136.4)	98.7
SPRS	(11.9)	101.2	(30.3)	103.0	(72.4)	107.0	(75.0)	107.0	(5.7)	100.5
LRS	(18.9)	117.0	(19.0)	115.0	(31.7)	125.0	(29.7)	121.5	(23.3)	116.2
JRS	<u>(58.4)</u>	125.3	<u>(77.4)</u>	131.8	<u>(70.6)</u>	134.6	<u>(66.3)</u>	129.5	<u>(62.5)</u>	127.3
TOTALS	<u>\$291.8</u>		<u>\$(493.7)</u>		<u>\$(791.6)</u>		<u>\$ (785.3)</u>		<u>\$ (778.3)</u>	

⁽¹⁾ Percent funded is the ratio of actuarial value of assets divided by the actuarial accrued liability. The UAAL is valued using a five year smoothed market value method.

SOURCE: State Department of Management and Budget, Office of Retirement Services.

As described in greater detail, below, in 1996, legislation was enacted which requires that employees of the State who are hired after March 31, 1997 become members of the State sponsored defined contribution plans. This effectively closes the SERS, LRS and JRS defined benefit plans. In addition, legislation was enacted in 1996 which excludes university employees hired after January 1, 1996 from membership in MPSERS.

Defined Contribution Retirement Plan

The State Employees' Defined Contribution Retirement Plan (the "Plan") was established to provide benefits at retirement to employees (including legislators) of the State who are hired after March 31, 1997 and to those members of the SERS, JRS and LRS who elected to transfer to the Plan during the 1998 window which allowed such transfers. Effective from and after October 1, 1999, the Plan is administered by the State Department of Management and Budget and Citistreet is the third party administrator. The State is required to contribute 4 percent of annual covered payroll. The State is also required to match employee contributions up to 3 percent of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Legislature.

APPENDIX II

CERTAIN GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE STATE

The purpose of this Appendix is to provide certain general, economic and demographic information concerning the State to those considering the purchase of the Bonds described in this Official Statement. Certain financial information and operating data concerning the State is included in Appendix I.

The State of Michigan Comprehensive Annual Financial Report prepared by the State's Department of Management and Budget for fiscal years ended September 30, 2001 and 2002, which were released on March 29, 2002 and December 26, 2002, respectively, are available upon request from the Department of Management and Budget, Office of Financial Management, State of Michigan, Lansing, Michigan 48909; Telephone: (517) 373-1010, and may also be found at www.michigan.gov/budget, and have been filed with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository for Michigan.

The State of Michigan, Executive Budget of the Governor, Fiscal Year 2003-04 contains a discussion of recommended expenditures and revenues for fiscal year 2003-04. It also contains an economic forecast. Copies of the applicable budgetary and appropriation documents and executive orders relating to the budget may be obtained from the Department of Management and Budget, Office of the State Budget, P.O. Box 30026, Lansing, Michigan 48909; Telephone (517) 373-7560 and may also be found at www.michigan.gov/budget.

The information in this Appendix has been furnished by the State and reflects information as of the dated date thereof.

TABLE OF CONTENTS

	<u>Page</u>
STATE FINANCIAL PROCEDURES.....	3
The Budget Process.....	3
Financial Control Procedures.....	4
Cash Management.....	4
Accounting Practices	5
Audit Practices	5
Debt Ratios	6
STATE GOVERNMENT	6
Legislative Branch	6
Executive Branch.....	7
Judicial Branch	7
MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM	7
STATE ECONOMIC CHARACTERISTICS	8
Employment and Unemployment	8
State Manufacturing Employment	9

STATE FINANCIAL PROCEDURES

The Budget Process

The budget of the State is a complete financial plan and encompasses the revenues and expenditures, both operating and capital outlay, of the General Fund and special revenue funds. The budget is prepared on a basis consistent with Generally Accepted Accounting Principles ("GAAP"). Under State law, the executive budget recommendations for any fund may not exceed the estimated revenue thereof, and an itemized statement of estimated revenues in each operating fund must be contained in an appropriation bill as passed by the Legislature, the total of which may not be less than the total of all appropriations made from the fund for that fiscal year. The State Constitution provides that proposed expenditures from and revenues of any fund must be in balance and that any prior year's surplus or deficit in any fund must be included in the succeeding year's budget for that fund.

The State Constitution provides that an appropriation is not a mandate to spend. The Governor, with the approval of the appropriating committees of the House and Senate, is required to reduce expenditures authorized by appropriations whenever it appears that actual revenues for a fiscal period will fall below the revenue estimates on which appropriations for that period were based. By statute any recommendation for the reduction of expenditures must be approved or disapproved by a majority of the members of the appropriating committees of the House and Senate within ten days after the recommendation is made. No reduction can be made without approval from both committees and in the event of disapproval, the Governor may within 30 days submit a new recommendation for expenditure reductions to the committees for their approval or disapproval.

Expenditure increases for a new program or for expansion of an existing program cannot be made until the availability of moneys has been determined and the program has been approved and moneys appropriated by the Legislature.

The preparation of each new fiscal year budget begins approximately 13 months prior to the beginning of the fiscal year. Department program reviews and evaluations are followed by a series of budget office analyses, reviews and hearings. The Governor's executive budget is completed and introduced to each house prior to the new fiscal year, within 30 days after the Legislature convenes in regular session.

The Governor's budget is introduced to each house with proposed appropriation bills necessary for its implementation. These bills are referred to the appropriation committees for analysis and committee hearings. When an appropriation bill is passed by both houses of the Legislature, the bill is enrolled and sent to the Governor. The Governor may sign it into law or veto it, either in part or in its entirety. Funds may be disbursed only after appropriations have been allotted by the Department of Management and Budget.

Each department may request allotment revisions, legislative or administrative transfers, or supplemental appropriations. The Department of Management and Budget implements revised allotments and administrative transfers as appropriate. The Legislature and Governor act on supplemental appropriation bills in a manner similar to original appropriations.

Financial Control Procedures

After passage of appropriation bills, the State Budget Director reviews quarterly allotments of the appropriated amounts. Before the State Treasurer can release any warrant for payment of a State obligation, the State Budget Director, as the delegate of the Director of the Department of Management and Budget is required by law to certify that the proposed expenditure is for a purpose provided by law and that sufficient unexpended allotment and appropriation balances remain from which to pay the proposed expenditure.

General Fund - General Purpose revenues are monitored by the Departments of Treasury and Management and Budget, which produce monthly reports comparing monthly revenues and year-to-date revenues with the prior year's actual results, with the current year's original budget estimates and with the Departments' revised estimates for the current fiscal year. School Aid Fund revenues are similarly monitored.

Expenditures are also monitored on a monthly basis; however, General Fund - General Purpose and General Fund - Special Purpose expenditures cannot be tracked separately. Thus, monthly reports cover total General Fund expenditures on a monthly and year-to-date basis as compared with the same periods in the prior year, the total actual expenditures for the entire fiscal year and the current year appropriations. Also included in the report are enacted and estimated supplemental appropriations and executive orders reducing appropriations.

Each State department or agency head is responsible for maintaining expenditures within appropriated limits. For programs which are supported by Special Purpose revenues, including those which are federally funded, the department head must also maintain the program within Special Purpose revenues as appropriated, i.e., should Special Purpose revenues not be earned as expected, related expenditures must be reduced by a like amount. In the event that Special Purpose expenditures are incurred within appropriation limits, but in excess of Special Purpose revenue earned, that excess is financed from General Purpose revenues.

Cash Management

In addition to administration and collection of the State's major individual and business taxes, the Department of Treasury by law is responsible for management of cash receipts, disbursements and investments. Major emphasis is placed on effective cash planning that makes provision for having adequate cash available to meet needs as they arise, because revenue collections and expenditures do not coincide with each other throughout the fiscal year.

Highest priority is given to expediting the processing of receipts for immediate deposit in the State's concentration bank to maximize cash available for investment. A statewide network of deposit accounts in local banks, electronic fund and wire transfers to the concentration bank, peak workload staffing, taxpayer lock boxes, accelerated filing of sales, use and withholding tax payments for large taxpayers and a sophisticated computer-oriented process provide timely receipt and deposit of State and federal funds to the Treasurer's centralized account. All reviews and audits are performed after checks are deposited and earning interest.

With authority to be its own banker and having an American Bankers Association number, the State Treasury maintains centralized control of all disbursements by direct issuance of warrants, electronic fund transfers, and wire transfers. Since warrants are not paid until presented to the State Treasury, it is possible to maximize investment return on available funds. An on-line computer inquiry system provides immediate status of issued warrants and enables daily reconciliation of cash and

monitoring of outstanding warrants. With centralized control of disbursements, payments are not released until due dates; postage discounts are realized; payments are not made to parties indebted to the State; and disbursements can be delayed with short notice if necessary.

In addition, the State Treasurer has a common cash pool of funds that provides a daily available balance for cash management purposes. See "MAJOR FUNDS OF THE STATE -- Common Cash Fund" in Appendix I.

Accounting Practices

The State reports its financial results on a generally accepted accounting principles ("GAAP") basis. The State's accounting practices are conducted in accordance with principles and standards established by the Governmental Accounting Standards Board. The State's financial report for fiscal year 2001-02 was issued on December 26, 2002 and was prepared on a fully GAAP basis.

Audit Practices

The State's auditor, the Auditor General, is appointed by the Legislature for an eight-year term. The Auditor General performs financial and performance audits of the Department of Treasury, the Office of Financial Management of the Department of Management and Budget and all other State departments and agencies. Each such audit is conducted in accordance with generally accepted governmental auditing standards and is generally broader in scope than those that occur in the private sector. The Auditor General in his reports is concerned not only with the traditional financial aspects of a State agency, but also with efficiency, compliance with law and economy of operations and program results. When a performance audit is made, a complete audit, in the sense of a detailed examination of transactions, in accordance with generally accepted auditing standards, is not always performed. Where appropriate, the Auditor General may choose to supplement his reports with audits completed by agency internal auditors or independent public accountants. The Auditor General annually examines the General Purpose financial statements of the State in accordance with generally accepted auditing standards and his opinion letter discloses departures from GAAP.

Debt Ratios

The following table sets forth certain debt ratios for State general and special obligation bonds as of September 30, 1997 through 2002.

TABLE 1
CERTAIN STATE BONDED DEBT RATIOS

Reference Date:	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total General Obligation Debt (000s)	\$ 655,184	\$ 874,072	\$ 839,377	\$ 900,223	\$ 998,315	\$1,081,276
Total Special Obligation Debt (000s)	\$2,490,419	\$2,862,754	\$2,772,955	\$2,759,632	\$3,640,633	\$4,308,897
Population (000s)	9,785	9,820	9,864	9,952	9,991	10,050
Equalized Value ⁽¹⁾ (000,000s)	\$ 216,745	\$ 237,416	\$ 261,002	\$ 284,427	\$ 312,896	\$ 343,715
Personal Income (000,000s fiscal year)	\$ 247,235	\$ 260,781	\$ 273,306	\$ 289,406	\$ 295,855	\$ 301,286
General Obligation Debt:						
Per Capita Debt	\$ 66.96	\$ 89.01	\$ 85.09	\$ 90.46	\$ 99.92	\$ 107.59
Debt to State Equalized Value	0.30%	0.37%	0.32%	0.32%	0.32%	0.31%
Debt to Personal Income	0.27%	0.34%	0.31%	0.31%	0.34%	0.36%
Special Obligation Debt:						
Per Capita Debt	\$ 254.51	\$ 291.52	\$ 281.12	\$ 277.29	\$ 364.39	\$ 428.75
Debt to State Equalized Value	1.15%	1.21%	1.06%	0.97%	1.16%	1.25%
Debt to Personal Income	1.01%	1.10%	1.02%	0.96%	1.24%	1.43%

⁽¹⁾ See "TAXABLE VALUATIONS."

SOURCE: State Department of Treasury and State Department of Management and Budget.

STATE GOVERNMENT

Legislative Branch

Legislative power is vested in the State House of Representatives, consisting of 110 members elected for two-year terms, and the State Senate, consisting of 38 members elected for four-year terms concurrent with the term of the Governor. The Legislature meets annually in January for a session of indeterminate length. The next election of members of the State House of Representatives is scheduled to be held in November 2004.

Executive Branch

The executive power of the State is vested in the Governor who is elected, along with the Lieutenant Governor, Secretary of State and Attorney General, for a term of four years. It is the responsibility of the Governor to see that the State's laws are faithfully executed and to supervise the principal executive departments created under the provisions of the State Constitution. The Governor has the right to veto legislation passed by the Legislature, including budget line items. The Legislature may override the Governor's veto by a vote of two-thirds of the members of each house.

The State Treasurer is the custodian and disbursing officer of the State's cash and investments and may only disburse funds within appropriation limits. By law, funds are disbursed only after the Director of the State Department of Management and Budget has certified that disbursements are proper and within appropriation limits.

The control of expenditures, monitoring of revenues and the budgeting function are primary responsibilities of the State Department of Management and Budget. Its accounting division, the Office of Financial Management, maintains the State's central system of accounts. Records are kept for over 90 funds and serve as a check on the State Treasurer and, through subsidiary accounts, on State agencies. Management reports are distributed to all departments on a monthly basis.

The State Administrative Board generally coordinates activities of the departments, boards and commissions. In addition to other duties, the Board is authorized to provide for the issuance of bonds and notes of the State and for their payment. The Board is composed of the Governor, the Lieutenant Governor, the Secretary of State, the Attorney General, the Superintendent of Public Instruction and the State Treasurer.

Judicial Branch

The judicial branch of the State consists of the Supreme Court, the Court of Appeals, the Circuit Courts, the Probate Courts and other courts of more limited jurisdiction. Judges of all courts are elected. The Constitution provides eight-year terms of office for the seven State Supreme Court Justices.

MICHIGAN PROPERTY TAX AND SCHOOL FINANCE REFORM

Property tax and school finance reform measures enacted in 1993 substantially cut local school property taxes and raised additional state revenues to replace most of the property tax cut. A constitutional amendment, approved by the voters in March 1994, increased the state sales and use tax from 4 percent to 6 percent; limits the ability of local school districts to levy taxes; and limits assessment increases for each parcel of property to the lesser of 5 percent or the rate of inflation. When property is subsequently sold, its taxable value will revert to the current assessment level of 50 percent of true cash value. Companion legislation increased the cigarette tax from \$.25 to \$.75 per pack, imposed a state real estate transfer tax and a 6-mill state property tax, and cut the state's income tax rate from 4.6 percent to 4.4 percent. These new state revenues are included within the State's constitutional revenue limitations and may impact the State's ability to raise additional revenues in the future. See "STATE REVENUES AND EXPENDITURES – Constitutional Provisions Affecting State Revenues and Expenditures" in Appendix I.

STATE ECONOMIC CHARACTERISTICS

Employment and Unemployment

The following table presents selected macroeconomic statistics. The average unemployment rate for calendar year 2002 was 6.2 percent, up from 5.3 percent in 2001.

TABLE 2
STATE LABOR FORCE AND EMPLOYMENT
(Amounts in Thousands)

	CALENDAR YEAR				
	1998	1999	2000	2001	2002
Civilian Labor Force.....	5,031.0	5,144.0	5,172.0	5,158.0	5,001.0
Employment.....	4,837.0	4,950.0	4,989.0	4,886.0	4,691.0
Unemployment	194.0	194.0	183.0	271.0	310.0
Unemployment Rate (%).....	3.9	3.8	3.5	5.3	6.2
Wage and Salary Employment	4,510.2	4,581.9	4,673.9	4,555.9	4,476.1
Total Private	3,854.1	3,914.3	3,992.3	3,869.6	3,791.0
Goods Producing	1,087.3	1,103.7	1,115.7	1,035.0	969.2
Private Service Providing	2,766.9	2,810.6	2,876.6	2,834.6	2,821.8
Government	656.0	667.6	681.6	686.3	685.1
Goods Producing	1,087.3	1,103.7	1,115.7	1,035.0	969.2
Natural Resources and Mining	10.0	9.6	9.5	9.3	8.7
Construction.....	187.4	195.9	209.6	206.1	201.3
Manufacturing.....	889.9	898.1	896.7	819.6	759.1
Durable Goods.....	704.5	713.9	716.4	653.0	600.5
Non-Durable Goods.....	185.4	184.2	180.3	166.6	158.7
Service-Providing	3,422.9	3,478.3	3,558.2	3,520.9	3,506.9
Trade, Transportation, and Utilities.....	853.5	868.3	881.2	861.2	837.4
Wholesale Trade	179.8	183.6	186.0	180.4	174.9
Retail Trade	542.5	550.6	559.8	548.8	532.5
Transportation and Utilities	131.2	134.1	135.4	132.0	130.0
Information	74.1	73.9	76.7	75.8	74.9
Financial Activities	207.7	206.9	209.4	210.4	215.5
Finance and Insurance	153.8	153.0	152.8	154.8	160.4
Real Estate and Rental and Leasing	53.9	53.9	56.6	55.5	55.1
Professional and Business Services	600.5	616.4	638.8	604.5	593.3
Professional, Scientific, and Technical Services	255.1	265.9	276.1	266.7	258.6
Management of Companies and Enterprises	70.8	70.9	70.5	69.1	69.7
Administrative and Support Services	262.1	267.5	279.7	256.8	253.0
Other/Waste Management Etc.	12.5	12.1	12.5	11.9	12.1
Educational and Health Services	484.8	491.7	502.1	513.4	531.9
Educational Services	51.2	52.1	54.3	59.5	67.7
Health Care and Social Assistance	433.6	439.6	447.9	453.9	464.2
Leisure and Hospitality	379.0	385.8	400.4	394.3	393.0
Accommodation and Food Services	326.4	328.8	336.4	332.7	332.2
Other	52.6	57.0	64.0	61.6	60.8
Other Services.....	167.3	167.7	168.1	175.1	175.9
Government	656.0	667.6	681.6	686.3	685.1

NOTE: Components may not total due to truncation.

SOURCE: Michigan Department of Career Development, Employment Security Agency (Wage and salary benchmark of March 2002) and U.S. Department of Labor, Bureau of Labor Statistics.

Wage and salary employment based on North American Industry Classification System (NAICS).

“Other” categories totals equal the difference between category total and NAICS estimated subcategory totals. Private service providing totals equal overall wage and salary employment minus goods producing employment and government employment.

NA signifies not available.

TABLE 3
STATE UNEMPLOYMENT RATES

<u>Calendar Year</u>	<u>Annual Average</u>	<u>Calendar Year</u>	<u>Annual Average</u>
1989	7.1%	1996	4.9%
1990	7.6	1997	4.2
1991	9.3	1998	3.9
1992	8.9	1999	3.8
1993	7.1	2000	3.5
1994	5.9	2001	5.3
1995	5.3	2002	6.2

SOURCE: State Department of Career Development, Employment Security Agency.

State Manufacturing Employment

Based on the newly implemented NAICS, total manufacturing employment averaged 759,100 in 2002. Employment in the durable goods manufacturing sector was 600,500 and non-durable goods employment was 158,700 in the State in 2002.

The combined motor vehicle and motor vehicle parts employment, which is an important component in the State's economy, totaled 269,800 in the State in 2002.

TABLE 4
STATE MANUFACTURING EMPLOYMENT
(Amounts in Thousands)

	Calendar Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Manufacturing	889.9	898.1	896.7	819.6	759.1
Durable Goods	704.5	713.9	716.4	653.0	600.5
Non-Durable Goods	185.4	184.2	180.3	166.6	158.7
Durable Goods	704.5	713.9	716.4	653.0	600.5
Wood Products	13.6	13.7	14.0	12.2	11.4
Nonmetallic Mineral Product	20.0	20.5	20.9	19.3	18.5
Primary Metal	34.3	35.4	34.5	31.4	28.7
Fabricated Metal Product	97.2	98.9	99.3	89.0	83.5
Machinery	104.7	103.5	102.3	89.6	79.5
Computer and Electronic Product	NA	NA	NA	23.7	21.7
Electrical Equipment, Appliance, Etc.	16.6	16.1	15.9	16.0	15.0
Transportation Equipment	328.0	337.2	341.8	312.7	289.8
Motor Vehicle	90.4	90.7	94.3	89.0	80.0
Motor Vehicle Parts	216.6	225.6	226.2	202.2	189.8
Other	21.0	20.9	21.3	21.5	20.0
Furniture and Related Product	38.4	38.8	38.7	36.9	31.2
Miscellaneous	NA	NA	NA	22.1	21.2
Non-Durable Goods	185.4	184.2	180.3	166.6	158.7
Food	38.7	36.0	35.2	35.3	33.8
Leather and Allied Product	4.0	3.5	3.2	3.2	1.8
Paper	NA	NA	NA	17.3	16.4
Printing and Related Support Activities	23.8	23.1	23.2	21.9	20.1
Chemical	34.7	35.4	33.8	31.7	31.4
Plastics and Rubber Products	51.4	53.4	53.4	45.8	43.9
Other	NA	NA	NA	11.4	11.3

NOTE: Components may not total due to truncation.

SOURCE: Michigan Department of Career Development, Employment Security Agency (Wage and salary benchmark of March 2002) and U.S. Department of Labor, Bureau of Labor Statistics.

Wage and salary employment based on North American Industry Classification System (NAICS).

“Other” categories totals equal the difference between category total and NAICS estimated subcategories.

NA signifies not available.

TABLE 5

STATE AND UNITED STATES ECONOMIC STATISTICS

		<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal Income (in \$ billions)	State	11.0	19.1	37.3	96.0	133.7	177.1	231.5	292.8	296.5	304.5(p)
	US	229.3	409.6	834.5	2,313.9	3,498.7	4,885.5	6,192.2	8,398.9	8,677.5	8,922.3(p)
Consumer Price Index (1982 to 1984 = 100)	State ⁽¹⁾	24.6	29.7	39.5	85.3	106.8	128.6	148.6	169.8	174.4	178.9
	US	24.1	29.6	38.8	82.4	107.6	130.7	152.4	172.2	177.1	179.9
Average Hourly Earnings Manufacturing	State	1.72	2.75	4.15	9.52	12.64	13.86	16.31	19.26	19.45	20.48
	US	1.32	2.15	3.23	7.15	9.40	10.78	12.34	14.32	14.76	15.29
Civilian Labor Force 16 Yrs. & over (000s)	State	n/a	2,959	3,591	4,293	4,352	4,598	4,814	5,172	5,158	5,001
	US	62,208	69,628	82,771	106,940	115,461	125,840	132,304	142,583	143,734	144,863
Unemployment Rate (%)	State	n/a	6.7	6.7	12.4	9.9	7.6	5.3	3.5	5.3	6.2
	US	5.3	5.5	4.9	7.1	7.2	5.6	5.6	4.0	4.7	5.8
Population (000s) ⁽²⁾	State	6,372	7,823	8,882	9,262	9,076	9,295	9,676	9,938	10,006	10,050
	US	151,326	179,323	203,302	226,546	237,924	248,791	266,278	281,422	285,318	288,369

⁽¹⁾ The State Consumer Price Index is the index for the Detroit CMSA.

⁽²⁾ Population for Decennial Census years is April 1 count; for other years population is July 1 estimate.

(p) Preliminary

n/a - Not Available

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics; State Department of Management and Budget; and U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of Census.

TABLE 6

STATE PERSONAL INCOME BY MAJOR SOURCES
(Amounts in Millions)

Source	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Wage and Salary Disbursements by					
Place of Work	\$157,528	\$166,673	\$175,593	\$173,299	\$174,702
Farm.....	514	471	526	525	557
Mining	336	315	354	346	313
Construction.....	7,420	8,326	9,195	9,012	8,869
Manufacturing	49,945	51,849	53,964	49,398	48,418
Durable	39,945	41,817	43,416	39,524	38,609
Nondurable	10,000	10,032	10,548	9,875	9,808
Wholesale Trade	10,700	11,292	11,861	11,057	10,798
Retail Trade	13,641	14,532	15,212	15,557	15,732
Finance, Insurance and Real Estate	8,610	8,768	9,089	9,721	10,024
Transportation, Communication and					
Public Utilities	7,356	7,778	8,075	8,216	8,052
Services.....	37,569	40,862	43,653	44,746	46,078
Government	20,708	21,675	22,788	23,790	24,911
Other Industries	730	805	879	932	952
Other Labor Income.....	19,024	19,488	20,526	20,860	22,177
Proprietors' Income	15,167	16,887	17,583	17,796	18,673
Farm.....	(24)	306	(89)	(175)	(146)
Non-Farm.....	15,191	16,581	17,672	17,971	18,819
Total Labor and Proprietors' Income					
by Place of Work	191,718	203,047	213,701	211,955	215,552
Less: Personal Contributions for					
Social Insurance	11,783	12,491	12,940	13,010	13,416
Plus: Residence Adjustments.....	839	834	857	939	938
Net Labor and Proprietors' Income					
by Place of Residence	180,775	191,390	201,618	199,884	203,075
Plus: Dividends, Interest and Rent.....	48,694	47,549	52,925	54,116	54,384
Plus: Transfer Payments	35,051	37,248	38,243	42,481	47,031
State U.I. Benefits.....	946	852	896	1,597	2,747
Total Personal Income by Place of					
Residence.....	\$264,520	\$276,187	\$292,786	\$296,480	\$304,490

Note: Components may not sum to total due to truncation.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Tables SQ5 and SQ7 of April 23, 2003 release. Uses Standard Industrial Classification System.

TABLE 7

PER CAPITA INCOME

<u>Year</u>	<u>Michigan</u>	<u>U.S.</u>
2002	\$30,296	\$30,941
2001	29,629	30,413
2000	29,408	29,760
1999	27,906	27,880
1998	26,860	26,893
1997	25,509	25,412
1996	24,398	24,270
1995	23,934	23,255
1994	22,830	22,340
1993	21,365	21,539
1992	20,259	20,960

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Table SA2 of April 2003 release.

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APPENDIX III

CERTAIN INFORMATION REGARDING CERTAIN GOVERNMENTAL UNITS ISSUING AMBAC INSURANCE PROGRAM MUNICIPAL OBLIGATIONS¹

I. Wayne County, Michigan

A. Wayne County AMBAC Insurance Program Municipal Obligations

The Wayne County AMBAC Insurance Program Municipal Obligations (the "Bonds") consist of bonds being issued by the Charter County of Wayne, Michigan (the "County") in an aggregate principal amount of \$13,740,000 pursuant to the provisions of Act 34 of the Michigan Public Acts of 2001, as amended ("Act 34"). Proceeds of the Bonds will be used to defray the cost of improvements and renovations to County buildings.

The County has pledged its limited tax full faith and credit for repayment of the Bonds. By pledging its limited tax full faith and credit to the payment of the Bonds, the County is obligated to pay such Bonds from its general fund and levy taxes within existing constitutional, statutory and charter limitations to the extent necessary to pay such Bonds.

Certain information regarding the County is set forth below in this Appendix III. Additional information may be obtained from the Wayne County Department of Management and Budget, 600 Randolph, Suite 304, Detroit, Michigan 48226, Telephone (313) 224-0420.

B. General Information Regarding the County

Location and Population

The County is a home rule charter county incorporated under Act 293, Public Acts of Michigan, 1967, as amended, and is governed by an elected chief executive officer (the "County Executive") and a 15-member County Commission. The County is the most populous county in the State of Michigan according to the U.S. Census Bureau. The 2000 population count is 2,061,162.

The County is located in the southeastern corner of Michigan's lower peninsula, encompassing approximately 623 square miles, with its southeastern boundary being the shoreline of portions of Lake St. Clair and the Detroit River. The County is made up of 10 townships, 33 cities, 1 village and 41 public school districts, from the five primarily residential Grosse Pointe communities in the northeastern quarter to the industrial downriver communities of Flat Rock, Trenton, River Rouge and Wyandotte. The City of Detroit ("Detroit") is located entirely within the County and serves as the County seat. Located in Detroit are two ports of entry from Canada. It is a center of finance, culture, commerce and tourism.

Fiscal Year

As of December 1, 1997, the County changed the end of its fiscal year to September 30 from November 30 to better coordinate its fiscal year with those of the State and the federal government. The transition year, fiscal 1998, consisted of a ten-month operating period. The County's fiscal year now begins on October 1 and ends on the following September 30. Fiscal 2003 commenced on October 1, 2002.

¹ Unless otherwise indicated, the applicable Governmental Unit is the source of all information contained in this Appendix III.

Government

The executive and administrative powers of the County are vested in the County Executive, who is elected on an at-large basis for a four-year term. The County Executive is responsible for overseeing the day-to-day operation and administration of the entire County, including all budgetary and financial matters. The County Executive supervises, directs and controls the function of all departments within the County (except those headed by other elected officials), coordinates the various activities of the County and unifies the management of its affairs. Additionally, the County Executive has been vested with the right to veto actions taken by the County Commission. The term of the current County Executive, Robert A. Ficano, expires on December 31, 2006.

The County electorate also elects, on an at-large basis, a County Treasurer, County Clerk, Register of Deeds, Prosecuting Attorney and Sheriff, each for a term of four years.

The legislative body of the County is a 15-member Commission (the "County Commission"), elected on a partisan basis from districts of approximately equal population for two-year terms. The County Commission functions on a committee basis. The County Commission reviews and takes action on all matters involving appropriations; acquisition, allocation or disposal of County properties; County ordinances; bond issues; the annual budget; approval of levying taxes and other taxation matters; and equalization of property assessments.

The powers and duties of the County Commission are exercised by ordinance if required by law or the Charter; otherwise, they are exercised by resolution.

Labor Force

As of March 2003, the County had 6,146 authorized full- and part-time employees, of which 5,857 were represented by 20 employee bargaining units. Each bargaining unit has negotiated a comprehensive salary, wage, benefit and working conditions contract with the County. The contracts and the number of employees are summarized on the following table.

COUNTY LABOR CONTRACTS
as of March 2003

<u>Bargaining Group</u>	<u>Number of Employees</u>	<u>Expiration Date of Contract</u>
AFSCME Local 1659, Probate Court	62	November 30, 2004
AFSCME Local 3309, Circuit Court	275	September 30, 2000*
AFSCME Council 25 (Locals 25, 101, 409, 1659)	2,408	November 30, 2004
AFSCME Council 25 (Locals 1862, 2057, 2926)	378	November 30, 2004
AFSCME Locals 409 & 1905, Circuit Court	111	September 30, 2000*
Building and Construction Trades Council	63	November 30, 2004
Dietitians and Nutritionists	16	November 30, 2004
Government Administrators Association (GAA)	649	November 30, 2004
GAA, Circuit Court	71	September 30, 2000*
GAA, Professional Nurse Council Units I & II	104	November 30, 2004
GAA, Probate Court	14	November 30, 2004
Local 24, Hotel, Restaurant Employees	53	November 30, 2004
AFSCME Local 3317, Sergeants & Lieutenants	148	November 30, 2004
UAW Local 412, Circuit Court	1	September 30, 2000*
Local 502, Service Employees International Union (Police Officers)	1,211	November 30, 2004
Local 547, Operating Engineers	27	November 30, 2004
Local 741, International Association of Firefighters	61	November 30, 2004
Hearing and Vision Technicians Association	18	November 30, 2004
Government Bar Association	170	November 30, 2004
Judicial Attorneys Association, Circuit Court	17	September 30, 2000*
Total Represented Employees	<u>5,857</u>	

* Negotiations are ongoing and the current agreements are continuing in effect by mutual agreement
Source: Wayne County Department of Personnel/Human Resources, Labor Relations Division; Wayne County Circuit Court

Retirement and Pension Plans

The County provides retirement benefits to its employees through the Wayne County Employees Retirement System, a single-employer public employee retirement system that is governed by the Wayne County Retirement Ordinance, as amended. The Retirement System provides three contributory, defined benefit retirement options (the Defined Benefit Plan), a defined contribution plan, and a hybrid plan (Defined Contribution and Defined Benefit Plan). The Retirement System provides retirement, survivor, and disability benefits to substantially all County employees which is described in greater detail in Note 12 to the County's Audited Financial Statements attached to this Appendix.

C. Information Regarding Taxable Valuations, Tax Levies and Collections

Authorized Ad Valorem Taxation

Pursuant to the County Charter, the County has been previously authorized to levy against the taxable value an ad valorem property tax not to exceed 6.07 mills for general operating purposes unless an increase (up to 10.0 mills) is approved by the voters of the County. This rate has been reduced over the years pursuant to the Headlee Amendment to the Michigan Constitution to its present maximum of 5.6483 mills.

Article IX, Section 6, of the Michigan Constitution of 1963, permits the levy of millage in excess of the above for:

1. All debt service on tax-supported bonds issues prior to December 23, 1978 or tax-supported issues which have been approved by the voters for which the issuer has pledged its full faith and credit.
2. Operating purposes for a specified period of time if said increase is approved by a majority of the qualified electors of the local unit.

On August 7, 1990, the voters of the County approved an additional mill to be levied through December 1, 1999 for general operating purposes. On August 8, 2000, the voters renewed the extra mill to be levied for ten years, through December 1, 2009. Pursuant to the Headlee constitutional rollback, this rate stands at 0.9529 mills.

On August 4, 1998, the electorate voted to continue to levy one additional mill (the "Jail Millage") for the years 1998 through 2001 for the acquisition, construction, and/or operation of misdemeanor or juvenile incarceration or detention facilities and for adult penalty options such as work release, home detention, and community restitution, with at least one-tenth of the millage to be used to acquire, build, and operate a juvenile offender work/training institution. In 2002, the Wayne County electorate voted to continue the one additional mill for the years 2002 through 2009. Pursuant to the Headlee constitutional rollback, this rate stands at 0.9381 mills.

On August 4, 1998, the voters of Wayne County approved amending the County charter to require a supermajority to pass future tax increases. Any proposal for a tax increase must be approved by a two-thirds vote of the 15 commissioners in order to be placed on the ballot. Additionally, a 60 percent margin at the polls will be required in order to adopt such a tax increase. The legislation became effective January 1, 1999. The legislation applies only to proposals for tax increases, and not to proposals for renewals of existing taxes. As a consequence, renewals of operating millage rates were placed before the voters at the Headlee-reduced amounts.

On August 8, 2000, the voters of the County approved an additional $\frac{1}{4}$ mill to be levied through December 1, 2005 to improve and operate several parks and related facilities, including major improvements to Hines Park, Elizabeth Park, Chandler Park and Fort Wayne, on the condition that for any year in which this increased levy would be imposed, the County must budget from other sources an

amount equal to its 1995-96 fiscal year appropriation for parks. Pursuant to the Headlee constitutional rollback, this rate stands at 0.2459.

Property Valuations

In accordance with Act 409, Public Acts of Michigan, 1965, and Article IX, Section 3, of the Michigan Constitution, State Equalized Value ("SEV") represents fifty percent (50%) of true cash value. In fiscal 1999 and subsequent years, the County's fiscal year is October 1 through September 30, and taxes are levied and payable on December 1 of each year. The amount of the tax levy is based upon the property valuation established the preceding December 31, as finally equalized by the State in the May immediately preceding the December 1 levy.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a nonuniform basis. Beginning in fiscal 1996, taxable property has two final valuations: SEV and Taxable Value. Property taxes will be levied on Taxable Value. Generally, the Taxable Value of property is the lesser of (a) the Capped Valuation, which is a computation based on the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the inflation rate or 5%, plus additions, or (b) the property's current SEV. Therefore, the Taxable Value, in most cases, will be different from the same property's SEV.

The County's SEV, Taxable Value, tax rates and collection history, as well as principal taxpayers for fiscal 2002, are presented in the following tables.

STATE EQUALIZED VALUATION AND TAXABLE VALUE TEN-YEAR HISTORY

<u>Fiscal Year Of Levy</u> ⁽¹⁾	<u>State Equalized Valuation (SEV)</u> ⁽²⁾	<u>% Increase From Prior Year</u>	<u>Taxable Value</u> ⁽³⁾	<u>% Increase From Prior Year</u>
1994	\$27,870,488,944	8.01	N/A	N/A
1995	28,931,062,371	3.81	N/A	N/A
1996	29,998,201,207	3.69	\$29,747,976,823	N/A
1997	31,552,013,839	5.18	30,879,770,793	3.80
1998	33,623,733,490	6.57	32,269,314,691	4.50
1999	36,353,298,746	8.12	33,736,851,177	4.55
2000	40,085,713,858	10.27	35,393,234,384	4.91
2001	44,392,225,103	10.74	37,296,590,731	5.38
2002	49,046,944,039	10.49	39,686,041,102	6.41
2003	53,800,509,901	9.69	41,905,186,259	5.59

(1) For the years prior to fiscal 1999, the County's fiscal year began on December 1 of the calendar year prior to the year indicated, and taxes were levied on the first day of the County's fiscal year.

(2) For fiscal years prior to fiscal 1996, the State Equalized Valuation against which the tax levy is applied is determined as of the December 31 prior to the December 1 on which the taxes are levied.

(3) Beginning in fiscal 1996, ad valorem millage is applied to the Taxable Value rather than the State Equalized Valuation.

Source: Wayne County Department of Management and Budget, Assessment and Equalization Division.

**TAXABLE VALUE BY USE AND CLASS
FISCAL YEARS 1999-2003**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>BY USE:</u>					
Agricultural/Utility	\$ 1,067,835,358	\$ 1,083,883,028	\$ 1,190,804,496	\$ 1,274,141,961	\$ 1,242,010,845
Commercial/Industrial	12,090,386,459	12,738,841,114	13,285,908,655	13,873,157,395	14,297,329,807
Residential	<u>20,578,629,360</u>	<u>21,570,510,242</u>	<u>22,819,877,580</u>	<u>24,538,741,746</u>	<u>26,365,845,607</u>
TOTAL	<u>\$33,736,851,177</u>	<u>\$35,393,234,384</u>	<u>\$37,296,590,731</u>	<u>\$39,686,041,102</u>	<u>\$41,905,186,259</u>
<u>BY CLASS:</u>					
Real Property	\$27,985,494,697	\$29,371,421,242	\$31,151,868,960	\$33,442,571,184	\$35,677,168,823
Personal Property	<u>5,751,356,480</u>	<u>6,021,813,142</u>	<u>6,144,721,771</u>	<u>6,243,469,918</u>	<u>6,228,017,436</u>
TOTAL	<u>\$33,736,851,177</u>	<u>\$35,393,234,384</u>	<u>\$37,296,590,731</u>	<u>\$39,686,041,102</u>	<u>\$41,905,186,259</u>

Source: Wayne County Department of Management and Budget, Assessment and Equalization Division.

Principal Taxpayers for Fiscal Year 2002

<u>10 Largest Taxpayers</u>	<u>Total Assessment</u>
Ford Motor Company	\$1,955,127,091
DTE Energy	1,258,564,506
Daimler Chrysler Corporation	409,708,622
General Motors Corporation	385,182,664
National Steel Corporation	230,197,318
Rouge Steel Company	177,403,800
Auto Alliance Int'l Inc.	177,121,387
Comcast Cablevision	83,026,092
Marshall Fields	63,623,655
Detroit Entertainment	<u>63,038,044</u>
TOTAL	\$4,802,993,179

**PROPERTY TAX RATES
TEN-YEAR HISTORY**

<u>For Tax Levy December 1</u>	<u>Fiscal Year</u>	<u>County General</u>	<u>County Parks</u>	<u>County Jail</u>	<u>R.E.S.A.⁽¹⁾</u>	<u>H.C.M.A.⁽²⁾</u>	<u>Comm. College</u>	<u>Total County- Related Tax Levy</u>
1993	1994	6.7069	N/A	0.9532	1.9971	0.2236	1.3652	11.2460
1994	1995	6.7258	N/A	0.9532	1.9971	0.2236	1.2738	11.1735
1995	1996	6.7258	N/A	0.9532	1.9971	0.2236	1.2738	11.1735
1996	1997	6.7258	0.2500	0.9532	1.9971	0.2236	1.2019	11.3516
1997	1998	6.7258	0.2500	0.9532	1.9971	0.2236	1.1913	11.3410
1998	1999	6.7258	0.2500	0.9532	1.9971	0.2235	1.1489	11.2985
1999	2000	6.7068	0.2493	0.9505	1.9914	0.2218	1.0190	11.1388
2000	2001	6.6651	0.2477	0.9446	1.9789	0.2202	1.0000	11.0565
2001	2002	6.6556	0.2473	0.9432	1.9753	0.2186	2.4995	12.5395
2002	2003	6.638	0.2459	0.9381	3.4643	0.217	2.4862	13.9895

Note: The property Tax Rates are stated per \$1,000 of State Equalized Assessed Valuation. Beginning in fiscal year 1996, the ad valorem millage is based on the Taxable Valuation rather than the State Equalized Valuation.

- (1) Regional Educational Service Agency
- (2) Huron-Clinton Metropolitan Authority

Source: Wayne County Treasurer

**PROPERTY TAX LEVIES AND COLLECTIONS
TEN YEARS ENDING SEPTEMBER 30, 2002**

<u>For Tax Levy Dec. 1</u>	<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collection</u>	<u>% of Levy Collected Before Delinquent</u>	<u>Reimbursed From Delinquent Tax Fund</u>	<u>Total Tax Collection</u>	<u>% of Total Collection To Levy</u>	<u>Delinquent Personal Property Taxes</u>
1992	1993	\$213,496,549	\$ 200,686,756	94.00%	\$ 11,384,641	\$212,071,397	99.33%	\$ 1,425,152
1993	1994	221,421,381	206,705,716	93.35	13,420,952	220,126,668	99.42	1,294,713
1994	1995	226,658,925	211,507,344	93.32	13,385,415	224,892,759	99.22	1,630,922
1995	1996	236,905,639	220,616,102	93.12	14,126,637	234,742,739	99.09	1,759,383
1996	1997	242,287,914	229,108,059	94.56	12,855,050	241,963,109	99.87	1,811,829
1997	1998	247,018,029	225,955,747	91.47	14,207,618	240,163,365	97.23	1,854,438
1998	1999	254,999,786	234,945,114	92.14	16,702,140	251,647,254	98.69	1,883,896
1999	2000	260,030,697	239,438,026	92.08	18,514,831	257,952,857	99.20	2,139,285
2000	2001	272,033,478	248,582,057	91.38	18,858,352	267,440,409	98.31	4,655,954
2001	2002	287,619,351	259,130,292	90.09	18,994,664	278,124,956	96.70	3,543,835

Source: Wayne County Treasurer's Office

Industrial Facilities Tax

The Michigan Plant Rehabilitation and Industrial Development Authority Act, Act 198, Public Acts of Michigan, 1974, as amended ("Act 198") provides significant tax incentives to industry to renovate and expand aging plants and to build new industrial plants in Michigan by allowing property tax abatement. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plants and equipment, the IFT is determined by calculating the product of the SEV or Taxable Value of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. For abatements granted prior to January 1, 1994, new plant and equipment is taxed at one-half the total mills levied by all taxing units, except for mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993. For new facility abatements granted after 1993, new plant and equipment is taxed at one-half of the total mills levied as ad valorem taxes by all taxing units, except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. It must be emphasized, however, that ad valorem property taxes on land, if otherwise assessable, are not reduced in any way since land is specifically excluded under Act 198.

There are numerous Industrial Facilities Districts established and resulting tax abatements granted by the local units for industrial facilities located within the County.

Commercial Housing Facilities Exemption

Act 438, Public Acts of Michigan, 1976, as amended ("Act 438"), permits certain local government units to grant tax abatements to qualifying commercial housing facilities. Act 438 is essentially identical to Act 255 of Public Acts of Michigan, 1978, as amended ("Act 255"), which provided abatements for qualifying commercial facilities that were no longer available in Wayne County beginning in 2001. The abatement applies to the facility but not the land upon which the facility is located. A qualifying facility is a new multifamily housing structure located within a downtown development authority district; only local government units which have established downtown development authority districts and which levy an income tax are eligible to grant the abatement. The City of Detroit is the only local government unit in the County that is eligible, and the City of Detroit has granted a number of such abatements.

The approximate combined annual value of all tax abatements granted in the County pursuant to Act 198, Act 255 and Act 438 in recent years is shown below.

<u>Year</u>	<u>Amount</u> <u>(in millions)</u>
1997	\$7.3
1998	7.0
1999	8.3
2000	8.9
2001	9.8

Tax Increment Financing Acts

The Downtown Development Authority Act, Act 197, Public Acts of Michigan, 1975, as amended; the Tax Increment Finance Authority Act, Act 450, Public Acts of Michigan, 1980, as amended; and the Local Development Financing Act, Act 281, Public Acts of Michigan, 1986, as amended (collectively, the "Tax Increment Authority Acts"), empower the governing bodies of various Michigan municipalities to establish the respective tax increment authorities to achieve certain improvements within tax increment authority boundaries or districts through tax increment financing. The tax increment authorities in general terms are enabled by the Tax Increment Authority Acts to undertake actions which have the effect of preventing deterioration, encouraging economic development

and economic activity, and assisting in neighborhood revitalization and historic preservation. Among the powers granted to such authorities is the option to implement an approved development plan. Such plans and proposals must be identified in a tax increment financing plan which has been approved by the governing body of the municipality.

Tax increment financing permits a tax increment authority to capture tax revenues attributable to increases in the value of real and personal property located within an approved development area. The increases in property value may be attributable to new construction, rehabilitation, remodeling, alterations, additions or any other factors which cause growth in value.

At the time the resolution establishing a tax increment financing plan is approved, the sum of the SEV of those taxable properties located within the development area is established as the "Initial Assessed Value." Property exempt from taxation at the time of determination of the Initial Assessed Value is included as zero. In each subsequent year, the total SEV of real and personal property within the district, including abated property on separate rolls, is termed the "Current Assessed Value."

The amount by which the Current Assessed Value exceeds the Initial Assessed Value is the "Captured Assessed Value." During the period in which a tax increment financing plan is in effect, local taxing jurisdictions, including the County, continue to receive ad valorem taxes based on the Initial Assessed Value only. Taxes generated by the combined millage levied by all taxing jurisdictions and paid on the Captured Assessed Value in years subsequent to the adoption of the tax increment financing plan are payable in their entirety to the tax increment authority for the purposes established in the tax increment financing plan. As a consequence, the County does not receive additional property tax revenue attributable to increased value resulting from development if such development occurs within a tax increment finance development area or district. There presently are several such tax increment authorities established by local units of government within the County.

Approximate amounts of additional tax revenue that were diverted from the County to tax increment finance authorities in recent years are shown below.

<u>Year</u>	<u>Amount (in millions)</u>
1999	\$11.9*
2000	13.6*
2001	14.3*
2002	17.5*
2003	19.7*

*Includes parks millage capture

Tax Levies and Collections

The County's taxes are due December 1 and payable current through the last day of February at the offices of the various local treasurers, except for County taxes levied within the corporate boundaries of the City of Detroit, which are payable at the office of the County Treasurer and at banks which are County depositories. A lien is created on the property assessed on December 1 of each year. Real property taxes remaining unpaid on the following March 1 are returned delinquent to the County Treasurer for collection (with the exception of taxes levied by the City of Detroit and the School District of the City of Detroit, which are collected by the City of Detroit). If real property taxes are not paid before the third May 1 following their return to the County Treasurer, the property is sold for delinquent taxes following such third May 1.

The County has established a Delinquent Tax Revolving Fund (the "Revolving Fund") which pays all real property taxes, except for city and school taxes for those properties within the corporate limits of the City of Detroit, returned delinquent to the County Treasurer as of March 1 of each year. The Revolving Fund pays all local units, school districts, villages, townships and the County General Fund, except the City of Detroit and the School District of the City of Detroit, for the full amount of taxes levied against real property. It is anticipated that the County will continue to reimburse the local units, school districts, villages, townships and the County General Fund for any uncollected taxes; however, the County has no statutory or legal obligation to continue this fund in future years. Uncollected personal property taxes must be collected by the local treasurers.

The Revolving Fund has been financed through the annual issuance of Delinquent Tax Notes. The Delinquent Tax Notes are issued on a taxable basis, generally for a term of three years. The ability of the County to issue such Notes is also subject to legal limitations, Michigan Department of Treasury approval and market conditions at the time of offering. The General Property Tax Act, Act 206, Public Acts of Michigan, 1893, as amended ("Act 206") provides in part that "the primary obligation to pay to the County the amount of taxes and interest thereon shall rest with the local taxing units, and the County has full right of recourse against the taxing unit to recover the amount thereof and interest thereon."

D. Information Regarding County

Tax Supported and Revenue Debt

The following table sets forth the direct tax-supported and revenue indebtedness of the County outstanding as of September 30, 2002. The following table does not reflect indebtedness issued by the County since September 30, 2002, including the Ambac Insurance Program.

STATEMENT OF INDEBTEDNESS AS OF SEPTEMBER 30, 2002

Debt carrying the County's limited tax pledge:	
Fiscal Stabilization Bonds	\$ 42,253,816
Fannie Mae Note	2,750,000
Building Authority Bonds ⁽¹⁾	121,440,000
Stadium Authority Bonds ⁽¹⁾	81,800,000
Drainage Districts Bonds	30,292,528
Michigan Transportation Fund Bonds	51,845,000
Delinquent Tax Notes	50,319,276
Metropolitan Sewage Disposal Bonds	7,022,057
Metropolitan Water Supply Bonds	659,806
Airport Hotel Revenue Bonds	110,920,000
Sewage Disposal Bonds	<u>272,490,736</u>
Total debt carrying the County's limited tax pledge	771,793,219
Other debt:	
Metro Airport Revenue Bonds	1,698,520,000
Capital lease obligations	<u>62,498,963</u>
Total other debt	<u>1,761,018,963</u>
Gross direct debt	2,532,812,182
Deductions:	
Metro Airport Revenue Bonds ⁽²⁾	1,698,520,000
Fiscal Stabilization Bonds ⁽³⁾	42,253,816
Fannie Mae Note ⁽¹⁰⁾	1,250,000
Stadium Authority Bonds ⁽⁴⁾	81,800,000
Drainage Districts Bonds ⁽⁵⁾	30,292,528
Michigan Transportation Fund Bonds ⁽⁶⁾	51,845,000
Delinquent Tax Notes ⁽⁷⁾	50,319,276
Metropolitan Sewage Disposal Bonds ⁽⁸⁾	7,022,057
Metropolitan Water Supply Bonds ⁽⁸⁾	659,806
Airport Hotel Revenue Bonds ⁽⁹⁾	110,920,000
Sewage Disposal Bonds ⁽⁸⁾	<u>272,490,736</u>
Total deductions	<u>2,347,373,219</u>
Net direct debt	<u>\$ 185,438,963</u>

- (1) Payable from lease rentals which constitute full faith and credit obligations of the County.
- (2) Payable solely from airport revenues, passenger facility charges, or direct airline pledges.
- (3) State-shared tax revenues are projected to be sufficient to cover debt service, based on experience.
- (4) Motor vehicle rental and hotel tax revenues are projected to be sufficient to cover debt service.
- (5) Payments from benefited local communities or properties are projected to be sufficient to cover debt service, based on experience.
- (6) Revenues from the State of Michigan Transportation Fund are projected to be sufficient to cover debt service, based on experience.
- (7) Delinquent tax revenues are projected to be sufficient to cover debt service based on experience.
- (8) Users fees or payments from benefited local communities are projected to be sufficient to cover debt service, based on experience.
- (9) Payable from Airport Hotel revenues.
- (10) Profits from the sale of housing units are projected to be sufficient to cover a portion of the debt service (approximately \$1.25 million). Other funding sources, including the County General Fund if necessary, will be used to pay the remaining amount.

Source: Wayne County Department of Management and Budget, Accounting and Cash Management Divisions.

Overlapping Debt

Property in the County is currently taxed for a proportionate share of outstanding debt obligations of overlapping governmental entities including school districts, cities, villages, townships and library districts within the County of Wayne and Wayne County Community College. The table below shows the County's outstanding tax-supported overlapping debt as of September 30, 2002.

School Districts	\$2,187,350,025
Cities and Villages	1,729,313,919
Townships	118,991,544
Library Districts	10,257,784
Community College	<u>84,070,000</u>
Total Overlapping Debt	<u>\$4,129,983,272</u>

Source: Municipal Advisory Council of Michigan.

Debt Statement Summary

The following table shows the County's net direct and overlapping debt as of September 30, 2002

Direct Debt:	
Gross Principal Amount	\$2,532,812,182
Less amount payable from other sources	2,347,373,219
Net Direct Debt	185,438,963
Overlapping Debt	<u>4,129,983,272</u>
Net Direct and Overlapping Debt	<u>\$4,315,422,235</u>

Source: Municipal Advisory Council of Michigan and Wayne County Department of Management and Budget.

**STATEMENT OF LEGAL DEBT MARGIN
(As of September 30, 2002)**

The amount of general purpose, general obligation debt the County may have outstanding at any time is limited by state law. The County's legal debt margin is calculated below:

2001 Wayne County State Equalized Valuation (SEV)	\$49,046,944,039
General Purpose Debt Limit (10% of SEV)	\$4,904,694,404
Tax-Supported Debt Outstanding (9/ 30/ 03 Projection)	771,793,219
Percent of Projected Debt Outstanding to SEV	1.57%
Projected Margin of Additional Debt Which Could Legally be Incurred Subject to Debt Limit	\$4,132,901,185

**COUNTY DEBT RATIOS
As of September 30,**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Tax-Supported Debt	\$ 757,685,470	809,140,185	\$771,793,219.00
Net Direct Debt	189,705,295	191,762,225	185,438,963
Net Direct Debt Net direct and overlapping Debt	3,661,110,051	3,815,775,330	4,315,422,235
State Equalized Valuation ("SEV")	40,085,713,858	44,392,225,103	49,046,944,039
Actual Full valuation (True Cash Value)	80,171,427,716	88,773,434,626	98,075,256,612
Tax-Supported Debt as % of SEV	1.89%	1.82%	1.57%
Tax-Supported Debt as % of actual Full	0.95%	0.91%	0.79%
Tax-Supported Debt Per capita (2,061,162)	\$ 360	\$ 393	\$ 374
Net Direct Debt as % of SEV	0.47%	0.43%	0.38%
Net Direct Debt as % Actual Full Valuation	0.24%	0.22%	0.19%
Net Direct Debt Per capita (2,061,162)	\$ 90.06	\$ 93.04	\$ 89.97
Net Direct and Overlapping Debt as % of SEV	9.13%	8.60%	8.80%
Net Direct and Overlapping Debt as % of SEV Of Actual Full Valuation	4.57%	4.30%	4.40%
Net Direct and Overlapping Debt Per Capita (2,061,162)	\$ 1,738	\$ 1,851	\$ 2,094

Source: Wayne County Department of Management and Budget

Current and Future Financing

In addition to the Bonds described herein, since September 30, 2002, the County issued its Delinquent Tax Anticipation Notes on July 30, 2003, in order to conduct its program for reimbursement of delinquent real property taxes to the County general fund and other local taxing units. \$82,800,000 in Wayne County General Obligation Limited Tax Notes were issued on a taxable basis and are scheduled to mature on October 15, 2004. Debt service will be paid primarily by collection of delinquent taxes and proceeds from the sale of delinquent properties.

The County has pledged its limited tax full faith and credit as secondary security for several sewage disposal system bonds. During the next twelve months, the County is currently considering issuing approximately \$14 million in Downriver Sewage Disposal System bonds as completion bonds to fund the system. To date, the project is still in the planning stages and a resolution to authorize the issuance of the bonds has not yet been submitted to the Wayne County Commission.

E. COUNTY FINANCIAL OPERATIONS

The Budget Process

The County Charter requires that the County Executive transmit, by January 2, to all agencies to be included in the budget for the next fiscal year commencing October 1, the budget policy statement, together with an estimate of revenues available for appropriation in the next fiscal year. All agencies must submit to the County Executive, by April 1, their budget requests and other information as required by the County Executive. In early June, the County Executive then submits his recommended budget to the County Commission, which introduces the proposed appropriation ordinance two weeks thereafter and completes departmental hearings on the budget by mid-July. The County must hold two public hearings in July to receive citizen input. The appropriation ordinance is adopted by the County Commission by September 1 and thereafter the County Executive may establish a schedule of periodic allotments for the fiscal year. Total appropriations may not exceed the revenue raising authority finally adopted.

The Department of Management and Budget is responsible for maintaining the accounting system, generating financial management reports, analyzing the budgets and monitoring spending authorizations. The Department is also responsible for equalization of assessments of property subject to taxation in the County.

Financial Statements - Independent Audit

The Charter requires that the County have an annual audit of all funds by an independent Certified Public Accountant. The County Charter further stipulates that an independent external auditor may not serve more than eight consecutive years in such capacity. Basic financial statements for the fiscal period ended September 30, 2002 were audited by the firm of KPMG LLP, Detroit, Michigan, independent certified public accountants, to the extent and for the period indicated in their report thereon and which, together with the basic financial statements, is presented in this Appendix III. Such report refers to other auditors and to the County's adoption of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosure*; and Interpretation No. 6 of the GASB, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Cash Management / Investment Policies

The County Treasurer maintains cash and investment pools for most County operating and component unit funds. The pools segregate cash and investments for general operating, various debt service, Building Authority and Stadium Authority. Ledger balances are maintained to apportion each fund's equity within each pool. Investments are also separately held in trust accounts for certain special revenue, debt service, enterprise and fiduciary (including pension) activities as required by various ordinances.

The County's investment policies are governed by State statutes. General County funds must be deposited in government-insured accounts in banks or thrifts within Michigan. Permissible investments include obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings, banker's acceptances and repurchase agreements. The types of investment and the financial institutions used for investment purposes are determined based upon operating and other County needs. The County Treasurer periodically assesses the financial strength of and services provided by the financial institutions to help ensure that integrity of principal is maintained and County cash flow needs are met.

As a matter of County policy, repurchase agreements are entered into only with local banks which hold the securities underlying the agreements in safekeeping, or with a primary dealer, using delivery-versus-payment procedures, with securities underlying the agreements held by a designated safekeeping bank in the County's name. The use of repurchase agreements is generally limited to short-term investment periods. As a matter of policy, the County does not enter into reverse repurchase agreements. State law and County investment policy prohibit investment in derivative products.

Revenue Sources

The County's primary sources of General Fund revenue are Property Taxes, State Grants and Contracts and Charges For Services. Revenues for each of these categories have increased since 1995, reflecting in part favorable economic conditions in the County and the State as a whole. As of September 30, 2002, the County's General Fund recorded an ending accumulated fund balance, including reserves, of \$30,422,943 compared to ending accumulated fund balances of \$29,859,372, \$24,922,890, 19,530,868 and \$19,193,345, as September 30, 2001, 2000, 1999 and 1998, respectively.

Economic Condition and Outlook

The County's economy has experienced significant diversification. While the County is still dependent on the automotive industry, other sectors-particularly health and business services-have increased their relative shares of total economic output. This diffusion of the economic base, as well as a strong economy in Southeast Michigan and the State as a whole, contributed to a decline in the County's unemployment rate from a peak of over 15% in the mid-1980s to levels in the late 1990s/2000 that were comparable to those of the State of Michigan and the United States. However, since reaching a thirty-year low in 2000, the County's unemployment rate has increased. As of July 2003, the County's unemployment rate was 9.9%, the State of Michigan's rate was 7.4% and the U.S. rate was 6.2%. The County's per capita personal income has remained comparable to that of Michigan and the U.S. In 2001, per capita personal income for the County was \$29,218, or 97% of Michigan's per capita income (\$29,629) and 96% of the U.S. per capita income (\$30,413).

Population

Shown below are comparative population figures for the County of Wayne, State of Michigan and the United States.

POPULATION, 1960-2000 COUNTY, STATE AND U.S.

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
County	2,666,297	2,670,368	2,337,893	2,111,687	2,058,550
State	7,823,000	8,882,000	9,262,000	9,328,784	9,938,444
United States	179,323,175	203,303,833	226,504,825	249,632,692	281,421,906

Source: U.S. Department of Commerce, Bureau of the Census.

Unemployment

The following table provides historical information about the County's unemployment rate as compared to state and national rates.

UNEMPLOYMENT RATES, 1993-2002

<u>Year</u>	<u>County</u>	<u>State</u>	<u>United States</u>
1993	8.3%	7.1%	6.9%
1994	6.7	5.9	6.1
1995	6.0	5.3	5.6
1996	5.4	4.9	5.4
1997	4.7	4.2	4.9
1998	4.3	3.9	4.5
1999	3.3	3.6	4.2
2000	3.9	3.6	4.0
2001	5.8	5.3	4.8
2002	7.2	6.2	5.8

Source: U.S. Bureau of Labor Statistics.

WAYNE COUNTY'S LARGEST EMPLOYERS

Ford Motor Co.	47,200
Detroit Public Schools	20,500
City of Detroit	19,000
Daimler Chrysler Corp.	14,244
U.S. Government	13,708
The Detroit Medical Center	12,395
General Motors Corp.	11,528
Henry Ford Health System	11,086
State of Michigan	9,060
U.S. Postal Service	8,385
Wayne County Government	6,543
Oakwood Healthcare Inc.	6,242
Wayne State University	5,857
St. John Health System	5,759
American Axle & Manufacturing Holdings Inc.	4,740

Source: Crain's Detroit Business, Book of Lists, 2003

Note: Full-time employees, January 2002

LITIGATION

Downriver

The U.S. Environmental Protection Agency has formally notified the County that it is in violation of the Federal Clean Water Act. On February 11, 1994, the County was required by a consent decree to make certain improvements to the Downriver Sewage Disposal System to address the immediate public health and welfare needs of the residents of those communities. The County issued bonds to cover the estimated cost of these additional improvements. The debt service on the bonds will be paid by the participating local communities. The total cost of the improvements is expected to be approximately \$335 million.

Other Litigation

In addition to the litigation described above, the County is a defendant in a number of other law suits, a party to other disputes, and subject to claims and property tax appeals which have resulted from its activities in providing services to the citizens of Wayne County. The ultimate effect of the resolution of these matters on the financial condition of the County is, in the opinion of management, not expected to be material.

**TABLE OF CONTENTS
TO EXCERPT FROM
CHARTER COUNTY OF WAYNE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the year ended September 30, 2002**

	<u>Page</u>
Independent Auditors' Report	II-1
Management's Discussion and Analysis	II-4
 Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Assets	II-16
Statement of Activities	II-18
 <i>Governmental Fund Financial Statements</i>	
Balance Sheet	II-20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	II-22
Statement of Revenues, Expenditures and Changes in Fund Balances	II-23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	II-25
 <i>Proprietary Fund Financial Statements</i>	
Statement of Net Assets	II-26
Statement of Revenues, Expenses and Changes in Fund Net Assets	II-28
Statement of Cash Flows	II-29
 <i>Fiduciary Fund Financial Statements</i>	
Statement of Fiduciary Net Assets	II-30
Statement of Changes in Fiduciary Net Assets	II-31
 <i>Component Unit Financial Statements</i>	
Statement of Net Assets	II-32
Statement of Activities	II-34
 <i>Index – Notes to Basic Financial Statements</i>	 II-35
 <i>Notes to Basic Financial Statements</i>	 II-37
 Required Supplementary Information (Other than Management's Discussion and Analysis)	
<i>Budgetary Comparison Schedules – Major Governmental Funds</i>	II-103
<i>Notes to Required Supplementary Information</i>	II-108



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Independent Auditors' Report

County Executive and County Commissioners
Charter County of Wayne, Michigan:

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 Charter County of Wayne, Michigan (the County) as of and for the year ended September 30, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Detroit-Wayne County Stadium Authority, which represents 21.7% and 35.1%, respectively, of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Pension Trust Funds, which represent 66.9% and 4.8%, respectively, of the assets and revenues/additions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Detroit-Wayne County Stadium Authority and the Pension Trust Funds, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above 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 Charter County of Wayne, Michigan as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2003 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral



part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in note 2 to the basic financial statements, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6 of the GASB, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of October 1, 2001.

The Management’s Discussion and Analysis on pages II-4 through II-15, the budgetary comparison information on pages II-103 through II-108, and the Schedule of Funding Progress and Summary of Actuarial Methods and Assumptions on page II-92 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 26, 2003

COUNTY OF WAYNE, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Charter County of Wayne, Michigan's ("County") financial performance, provides an overview of the activities for the fiscal year ended September 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the County's financial statements that follow.

Because the County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years, particularly, in the analysis of government-wide financial information. However, in future years, when prior year information is available, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

FINANCIAL HIGHLIGHTS—PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets—The assets of the County exceeded its liabilities at fiscal year end, September 30, 2002, by \$1.8 billion (presented as "net assets"). Of this amount, \$284.2 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the County's ongoing obligations to citizens and creditors.

Changes in Net Assets—The County's total net assets decreased by \$100.4 million (a 5.4% decrease) for the fiscal year ending September 30, 2002. Net assets of governmental activities decreased by \$87.1 million (a 6.5 percent decrease), while net assets of the business-type activities showed a decrease of \$13.3 million (a 2.5 percent decrease).

Fund Highlights:

Governmental Funds—Fund Balances— The County's governmental funds reported a combined ending fund balance of \$127.4 million for the fiscal year ended September 30, 2002. Of this total amount, \$59.4 million represents the "unreserved fund balances" of which \$27.7 million relates to the General Fund, \$13.6 to the Roads Fund and \$17.9 million to the Budget Stabilization (Rainy Day) Fund, a non-major fund, while the Mental Health Fund shows a fund deficit of \$15.4 million.

Long-term Debt:

The County's total long-term debt obligations decreased by \$11.4 million (1.8 percent) during the current fiscal year. This decrease represents the net difference between new issuances and payment on outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the County's basic financial statements, which include 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 including budgetary schedules and combining financial statements in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the County's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the County's financial position, which assists in assessing the County's economic condition at the end of the fiscal year. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most commercial businesses. All revenues earned and expenses incurred connected with the fiscal year have been included, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the County.

Both of the above financial statements have separate sections for the three different types of County programs or activities. These three types of activities are:

Governmental Activities—The activities in this section are mostly supported by property taxes and inter-governmental revenues (federal and state grants and contracts). Most services normally associated with County government fall into this category, including legislative, judicial, general government, public safety, public works, highways, streets and bridges, health and welfare, recreation and cultural and non-departmental.

Business-type Activities—These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the County include the operations of the sewage disposal systems, jail commissary, parking lots and the wetlands mitigation project. These programs operate with minimal assistance from the governmental activities of the County.

Discretely Presented Component Units—Component units are legally separate organizations for which the County has financial accountability or other financial interest. These entities operate as governmental entities similar to the governmental activities described above except for the Wayne County Airport Authority, which operates like the business-type activities described above. The County's discretely presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities' assets, liabilities, revenues and expenses in relation to the total of all component units. The two discretely presented major component units are the Wayne County Airport Authority and Third Circuit Court.

There are six non-major component units that are combined into a single column for reporting in the fund financial statements. These non-major component units include:

- Probate Court
- Chapter 8 Drainage Districts
- Chapter 20 Drainage Districts
- Chapter 21 Drainage
- Brownfield Authority
- Economic Development Corporation
- Wayne County Stadium Authority

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the County's component units are presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the County government, reporting the County's operations in more detail than the government-wide statements. All of the funds of the County can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds—Most of the basic services provided by the County are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the County's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the County.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. A reconciliation is presented on the page immediately following each governmental fund financial statement.

The County has 31 governmental funds; five are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The County's five major governmental funds are: the General Fund, Roads, Mental Health, Health, and Juvenile Justice and Abuse/Neglect. Data from the other 26 governmental funds are combined into single aggregated presentation. Individual fund data for the non-major governmental funds is provided in the combining fund statements elsewhere in this report. The basic governmental funds financial statements can be found immediately following the government-wide statements.

Proprietary Funds—Wayne County uses two different types of proprietary funds. Enterprise funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Internal service funds are used as an accounting device to allocate costs internally among the County's various functions. The County uses internal service funds to account for its delinquent tax revolving funds, central services, Department of the Environment administrative costs, risk management services (insurance), equipment lease financing and building and grounds maintenance. Because the internal service funds predominantly benefit governmental rather than business type functions they have been included within governmental activities in the government wide financial activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The County has seven enterprise funds, three of which are considered as being major proprietary funds for presentation purposes. Major funds include the operations of the Downriver Sewage System, and Rouge Valley Sewage System and the Combined Sewer Overflow Control Program (CSO) Basins. Data from the other four enterprise funds are combined into a single aggregated presentation, as are all of the internal service funds. Individual fund data for all of the non-major enterprise funds is provided in the combining fund statements elsewhere in this report. The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds—These funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds use the accrual basis of accounting.

The County's fiduciary funds include: the Pension (and Other Employee Benefit) Trust Funds (two separate pension benefit plans for employees and a defined contribution plan); the Agency Funds (which account for the assets held for distribution by the County as an agent for other governmental units, other organizations or individuals). Agency funds include the Trust and Agency, Undistributed Tax, Library penal fines, Retainages, Imprest Payroll and Imprest Retirement Payroll. Individual fund detail can be found in the combining financial statements.

The basic fiduciary funds and similar component unit financial statements can be found immediately following the proprietary fund financial statements.

Component Units— As mentioned above, these are operations for which the County has financial accountability or other financial interest but they have certain independent qualities as well. All County component units operate as governmental enterprises except for the Wayne County Airport Authority, a businesslike enterprise. The government-wide financial statements present information for the discretely presented component units in one column for both governmental activities and business-type activities in the statement of net assets. Also, certain information on the statement of changes in net assets is aggregated component units. The combining statement of net assets and the combining statement of activities provide detail for each major component unit and the non-major component units in aggregate. Individual non-major component unit detail can be found in the combining financial statements described below.

The basic combining financial statements for major component units can be found immediately following the fiduciary funds.

Notes to the Financial Statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Additional Required Supplementary Information—The basic financial statements are followed by a section of additional required supplementary information. This section includes a budgetary comparison schedule for the major governmental funds.

Other Supplementary Information—The combining financial statements referred to earlier in connection with fiduciary funds and non-major component units are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

The Schedule of Expenditures and Inter-fund Transfers—Detail Budget to Actual Comparison is presented in this section. It provides detail comparisons of expenditures and inter-fund transfers at the legal level of budgetary control. Comparisons can be made between the original budget, final budget, and actual.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's combined net assets (government and business-type activities) totaled \$1.77 billion at the end of 2002.

The largest portion of the County's net assets (76.3 percent) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets (1.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets

may be used to meet the County's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

**County of Wayne, Michigan's Net Assets-Primary Government
September 30, 2002**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals Primary Government</u>
Capital assets	\$ 1,370,267,790	488,649,362	1,858,917,152
Other assets	<u>488,037,186</u>	<u>333,001,198</u>	<u>821,038,384</u>
Total assets	<u>1,858,304,976</u>	<u>821,650,560</u>	<u>2,679,955,536</u>
Non-current liabilities	294,908,474	258,128,147	553,036,621
Other liabilities	<u>314,168,037</u>	<u>46,207,080</u>	<u>360,375,117</u>
Total liabilities	<u>609,076,511</u>	<u>304,335,227</u>	<u>913,411,738</u>
Net Assets:			
Invested in capital assets, net of related debt	1,132,155,998	218,771,660	1,350,927,658
Restricted	107,936,275	23,508,151	131,444,426
Unrestricted	<u>9,136,192</u>	<u>275,035,522</u>	<u>284,171,714</u>
Total net assets	<u>\$ 1,249,228,465</u>	<u>517,315,333</u>	<u>\$ 1,766,543,798</u>

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as, for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

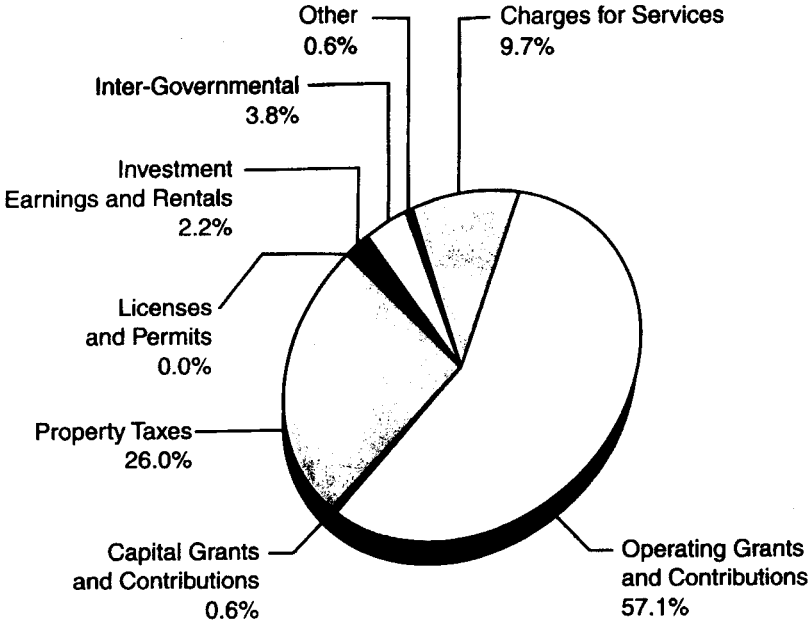
Changes in Net Assets

Approximately 24.6 percent of the County's total revenue came from taxes, while 55.4 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 13.7 percent of the total revenues. The County's expenses cover a wide range of services. The largest expenses were for health and welfare, 53.9 percent; highways, streets and bridges, 12.2 percent; and public safety, 8.9 percent. In 2002, expenses for governmental activities exceeded program revenues by \$541.5 million, resulting in the use of general revenues (mostly taxes), \$454.7 million, and existing net assets, \$86.8 million. Expenses for business-type activities exceeded revenues by \$13.3 million. This shortfall was funded by the use of existing net assets.

County of Wayne, Michigan's Changes in Net Assets-Primary Government
For the fiscal year ended September 30, 2002

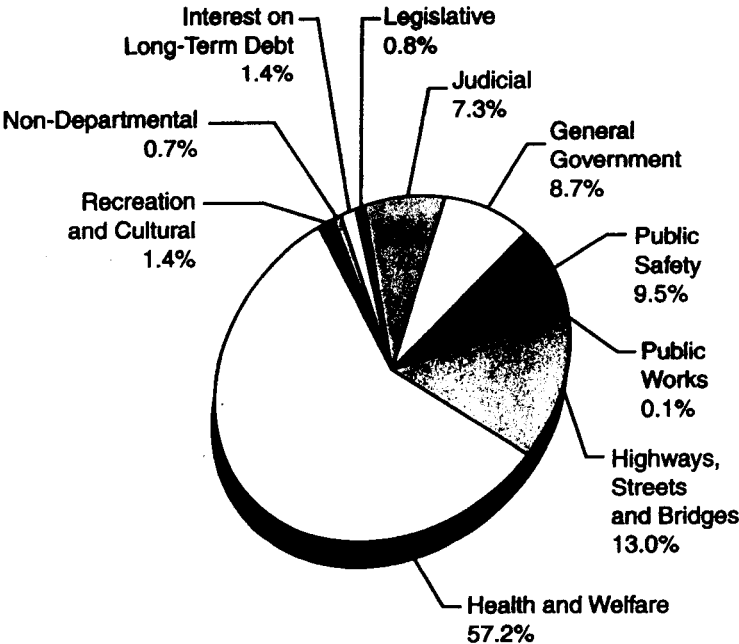
	Governmental Activities	Business-Type Activities	Totals Primary Government
Revenues:			
Program Revenues:			
Charges for Services	\$ 135,295,983	66,934,884	\$ 202,230,867
Operating Grants and Contributions	796,511,575	8,579,817	805,091,392
Capital Grants and Contributions	8,998,302	1,406,452	10,404,754
General Revenues:			
Property Taxes	362,890,580	-	362,890,580
Investment earnings	30,946,890	510,685	31,457,575
Inter-governmental	52,714,462	-	52,714,462
Other revenue	7,920,187	201,154	8,121,341
Total revenues	1,395,277,979	77,632,992	1,472,910,971
Expenses:			
Legislative	11,875,687	-	11,875,687
Judicial	108,709,078	-	108,709,078
General government	129,032,360	-	129,032,360
Public safety	140,377,340	-	140,377,340
Public works	1,611,438	-	1,611,438
Highways, streets and bridges	191,949,420	-	191,949,420
Health and welfare	847,542,104	-	847,542,104
Recreation and cultural	20,370,195	-	20,370,195
Non-departmental	10,556,323	-	10,556,323
Interest on long-term debt	20,396,369	-	20,396,369
Sewage Disposal Systems	-	88,383,960	88,383,960
Jail commissary	-	1,894,398	1,894,398
Parking lots	-	273,512	273,512
Wetlands mitigation	-	348,886	348,886
Total expenses	1,482,420,314	90,900,756	1,573,321,070
Change in net assets	(87,142,335)	(13,267,764)	(100,410,099)
Net Assets, beginning of year	1,336,370,800	530,583,097	1,866,953,897
Net Assets, end of year	\$ 1,249,228,465	517,315,333	\$ 1,766,543,798

2002 GOVERNMENTAL ACTIVITIES - REVENUES



Governmental activities reduced the County's net assets by \$86.8 million. A comparison of the cost of services by function for the County's governmental activities is shown below, along with the revenues used to cover the net expenses of the governmental activities (expressed in thousands). The decrease in net assets for the business-type activities is explained below.

2002 GOVERNMENTAL ACTIVITIES - EXPENSES



Business-type Activities

The business-type activities reduced the County's net assets by \$13.3 million. This reduction resulted primarily from net operating losses of \$6.6 million, \$4.0 and \$2.1, for the Downriver Sewage System, CSO Basins and Rouge Valley Sewage System, respectively. These losses resulted primarily from depreciation adjustments related to infrastructure assets, \$6.2 million and changes in the accounting for contributed capital, \$7.2 million.

FINANCIAL ANALYSIS OF THE COUNTY'S INDIVIDUAL FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$127.4 million, a decrease of \$62.8 in comparison with the prior year. This decrease resulted primarily from operating losses in the Roads Fund, \$28.0 million; Mental Health Fund, \$15.4 million and various non-major funds totaling \$19.7 million. Unreserved fund balance at year-end amounted to \$59.5 million or 46.7 percent of this total, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to supplies inventory and prepayments.

The general fund is the chief operating fund of the County. At the end of the fiscal year, September 30, 2002, the unreserved fund balance in the general fund was \$27.8 million, while the total fund balance was \$30.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.4 percent of total general fund expenditures, while total fund balance represents 8.1 percent of that same amount. The County's general fund balance increased by \$0.6 million during the current fiscal year.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed in the business-type activities above, the County's net assets decreased by \$13.3 million as a result of operating losses in the proprietary funds. This resulted primarily from the Downriver, Rouge Valley and CSO Basins Sewage Systems reporting net operating losses of \$6.6 million, 2.1 million and \$4.0 million, respectively for the year ended September 30, 2002. These losses resulted primarily from depreciation adjustments related to infrastructure assets, \$6.2 million and changes in the accounting for contributed capital, \$7.2 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The net differences between the original budget and the final budget were relatively minor (\$4.3 million increase in appropriations) and can be briefly summarized as follows:

- The Third Circuit Court received \$12.0 million in supplemental appropriations to retire a portion of its prior year accumulated fund deficit.
- The General Fund received \$8.0 million in supplemental appropriations from the Fiscal Stabilization Fund to cover increased operating expenses.
- The Office of the Register of Deeds received \$4.5 million in supplemental appropriations for increased operating expenses.
- Indigent Health Care received \$1.1 million in supplemental appropriations for increased operating expenses.
- Juvenile Justice received \$1.8 million in supplemental appropriations for increased operating expenses.

The supplemental appropriations were funded from additional charges for services by the Register of Deeds, transfers from the Delinquent Tax Fund, \$12.0, transfers from the Budget Stabilization Fund, \$8.0 million, and transfers from the Capital Projects Fund, \$4.0 million. In addition, the general fund received a \$5.2 million transfer from the General Debt Service Fund for accumulated excess debt service payments related to a paid bond issue. Actual revenues and transfers in, \$512.3 million, exceeded final budgeted general fund revenues and transfers in, \$509.7 million, by \$2.6 million. While actual general fund expenditures and transfers out, \$511.7 million, exceeded budgeted general fund expenditures and transfers out, \$509.7 million, by \$2.0 million. These changes resulted in a net \$0.6 million increase in the general fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental and business-type activities as of September 30, 2002, amounts to \$2.8 billion, net of accumulated depreciation of \$0.9 billion, leaving a net book value of \$1.9 billion. Investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets include items that are normally immovable and of value only to the County, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total decrease in the County's gross investment in capital assets for the current fiscal year was 1.1 percent. However, actual expenditures to purchase or construct capital assets amounted to \$268.5 million for the year. Most of this amount was used to construct a new sewage disposal facility, 224.8 million. Additional information on the County's capital assets can be found in Note 8 of the notes to the financial statements of this report.

Debt Administration

County government, which exists by authority of the State, has only those duties and powers specifically given it in the State Constitution and/or by statute, including authority for the issuance of debt instruments, which must also be authorized by resolution or ordinance adopted by the County Commission. To facilitate the delivery of mandated services to its citizens, it is necessary from time to time to fund capital improvements or additions to sewer, water, and drainage systems and road and highway systems.

Debt obligations may pledge repayment from one or more of three sources:

- (1) The County's full faith and credit, based on its taxing power outside the 15-mill limitation, if approved by the voters. Such debt instruments are designated as "unlimited tax general obligations".

- (2) The County's full faith and credit, based on its taxing power within applicable limits. Such debt instruments are designated as "limited tax general obligations."
- (3) Revenues from facilities or enterprises financed by the issuance of the debt, designated as "revenue obligations" of the County.

The County has issued limited tax general obligation bonds payable from general unrestricted revenues of the County for general operating and other purposes; and has financed capital construction associated with sewer, water, and drainage projects, roads, airports, and sports facilities. The County's debt limit is capped at 10 percent of its State Equalized Valuation (SEV) or 4.9 billion at September 30, 2002. The County's bond ratings have steadily improved from 1986 to the present. Upgrades have been assigned 12 times over that period. Current bond ratings for uninsured debt issues assigned by the major Bond Rating Agencies include Moody's (A3), Standard & Poor's (A-), and Fitch (A).

General obligation bonds are backed by the full faith and credit of the County, including the County's power to levy additional taxes to ensure repayment of the debt. The County's total debt of \$643.6 million at year-end decreased by \$11.4 million, 1.7 percent, over the prior year. In addition, the County issued limited tax (general obligation) notes amounting to \$67.4 million. These notes were issued to finance the purchase of delinquent taxes (declared delinquent on March 1, 2002). In addition, the County entered into capital leases for the acquisition of property and equipment amounting to \$18.6 million.

Additional information on the County's long-term debt obligations can be found in Note 11 of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County projects a 5-6 percent shortfall in revenues for next fiscal year primarily as a result of the current national recession, a reduction in state-shared revenues and new state legislation which changed the formula for distributing Airport Parking taxes. General Fund interest earnings are projected to be less than the prior year. The Governor has already announced significant cuts in state services and aid to local governments due to the State facing a \$1.7 billion budget deficit for next year.

The average annual unemployment rate for the County for calendar year 2002 increased to 7.2 percent, compared to the prior year rate of 5.9 percent. This rate exceeds the national average annual unemployment rate of 5.8 percent. The consumer price index and other inflation indices show modest increases for 2002 and remained relatively stable when compared to the prior year. The assessment rolls of the various cities and townships of the County indicate that total State Equalized Value for the County amounted to \$53.8 billion, an increase of 9.7 percent over the prior year. Additionally, the total Taxable Valuation of the County, which serves as the basis for current and future tax levies, amounted to \$41.9 billion, an increase of 5.6 percent over the previous year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's 's finances for all interested citizens, taxpayers, customers, investors, creditors and other stakeholders. In addition, it seeks to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided or requests for additional information should be addressed to: Charter County of Wayne, Michigan, Department of Management and Budget, Accounting Division, 600 Randolph Street, Detroit, Michigan 48226.

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CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets
As of September 30, 2002

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>Assets</u>				
Current assets:				
Equity in pooled cash and investments (Note 4)	\$ 106,333,364	5,689,485	\$ 112,022,849	\$ 53,301,387
Other cash and investments (Note 4)	37,340,212	-	37,340,212	937,593
Due from component units (Note 10)	26,406,218	14,992	26,421,210	-
Due from primary government (Note 10)	-	-	-	2,017,414
Receivables:				
Delinquent property taxes	70,189,513	-	70,189,513	-
Accounts	48,743,591	1,938,470	50,682,061	25,744,170
Special assessments	-	-	-	30,292,527
Internal balances	30,063	(30,063)	-	-
Due from other governmental units (Note 10)	122,257,612	24,214,549	146,472,161	29,837,153
Total receivables	241,220,779	26,122,956	267,343,735	85,873,850
Less allowance for uncollectible accounts	18,921,199	-	18,921,199	-
Net receivables	222,299,580	26,122,956	248,422,536	85,873,850
Restricted assets:				
Equity in pooled cash and investments (Notes 4 and 5)	-	40,296,238	40,296,238	246,801,886
Other cash and investments (Note 4)	-	1,649,831	1,649,831	121,652,112
Accounts receivable (Note 5)	-	12,943,607	12,943,607	9,826,114
Supplies inventory	6,337,957	42,268	6,380,225	-
Prepayments and deposits	2,782,287	23,996	2,806,283	993,886
Total current assets	401,499,618	86,783,373	488,282,991	521,404,242
Non-current assets:				
Restricted assets:				
Other cash and investments	-	-	-	53,675,441
Accounts receivable (Note 5)	-	2,029,191	2,029,191	-
Bond principal due from municipalities (Note 5)	-	243,607,303	243,607,303	-
Capital assets, net (Note 8)	1,370,267,790	488,649,362	1,858,917,152	2,863,480,496
Bond issuance costs, net of amortization	-	-	-	23,473,188
Other assets	-	581,331	581,331	626,874
Long-term advances (Note 7)	86,537,568	-	86,537,568	-
Total non-current assets	1,456,805,358	734,867,187	2,191,672,545	2,941,255,999
Total assets	\$ 1,858,304,976	821,650,560	\$ 2,679,955,536	\$ 3,462,660,241

See accompanying notes to the basic financial statements.

(Continued)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets, Continued
As of September 30, 2002

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Liabilities				
Current liabilities:				
Accounts and contracts payable	\$ 88,473,851	11,453,920	\$ 99,927,771	\$ 19,258,749
Accrued wages and benefits	14,408,377	209,316	14,617,693	9,876,450
Due to component units (Note 10)	1,701,191	316,223	2,017,414	-
Due to primary government (Note 10)	-	-	-	26,812,270
Due to other governmental units (Note 10)	52,518,016	37,277	52,555,293	491,240
Current portion of long-term obligations (Note 11)	78,770,462	-	78,770,462	7,992,580
Accrued Interest	8,168,618	-	8,168,618	-
Other liabilities	68,706,905	1,128,664	69,835,569	12,999,049
Deferred revenue	1,420,617	1,006,651	2,427,268	-
Payable from restricted assets:				
Accounts payable	-	6,298,372	6,298,372	-
Current portion of long-term debt (Note 11)	-	14,807,950	14,807,950	31,290,000
Accrued interest	-	-	-	27,333,711
Deferred revenue	-	-	-	459,494
Other restricted liabilities	-	10,948,707	10,948,707	-
Total current liabilities	314,168,037	46,207,080	360,375,117	136,513,543
Non-current liabilities:				
Non-current portion of long-term obligations (Note 11)	294,908,474	-	294,908,474	1,863,087,213
Other liabilities	-	-	-	445,801
Deferred revenue	-	832,449	832,449	-
Payable from restricted assets:				
Bonds payable from restricted assets (Note 11)	-	255,069,747	255,069,747	-
Accounts payable	-	2,225,951	2,225,951	-
Total non-current liabilities	294,908,474	258,128,147	553,036,621	1,863,533,014
Total liabilities	609,076,511	304,335,227	913,411,738	2,000,046,557
Net Assets				
Invested in capital assets, net of related debt	1,132,155,998	218,771,660	1,350,927,658	1,142,264,141
Restricted net assets for:				
Debt service	30,830,390	23,508,151	54,338,541	185,469,134
Delinquent tax administration	38,438,804	-	38,438,804	-
Road construction	28,503,998	-	28,503,998	-
Other capital projects	-	-	-	16,537,215
Capital improvements - parks	10,163,083	-	10,163,083	-
Unrestricted net assets	9,136,192	275,035,522	284,171,714	118,343,194
Total net assets	1,249,228,465	517,315,333	1,766,543,798	1,462,613,684
Total liabilities and net assets	\$ 1,858,304,976	821,650,560	\$ 2,679,955,536	\$ 3,462,660,241

See accompanying notes to the basic financial statements.

(Concluded)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Activities
For the year ended September 30, 2002

	<u>Program Revenues</u>				Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs					
Primary government:					
Governmental activities:					
Legislative	\$ 11,875,687	40,112	-	-	\$ (11,835,575)
Judicial	108,709,078	-	22,090,507	-	(86,618,571)
General government	129,032,360	51,978,765	7,176,133	8,998,302	(60,879,160)
Public safety	140,377,340	31,648,776	15,404,945	-	(93,323,619)
Public works	1,611,438	282,722	-	-	(1,328,716)
Highways, streets and bridges	191,949,420	12,516,999	115,544,552	-	(63,887,869)
Health and welfare	847,542,104	31,930,051	636,156,438	-	(179,455,615)
Recreation and cultural	20,370,195	4,385,943	139,000	-	(15,845,252)
Non-departmental	10,556,323	2,512,615	-	-	(8,043,708)
Interest on long-term debt	20,396,369	-	-	-	(20,396,369)
Total governmental activities	1,482,420,314	135,295,983	796,511,575	8,998,302	(541,614,454)
Business-type activities:					
Sewage Disposal Systems	88,383,960	65,171,991	8,300,640	1,406,452	(13,504,878)
Jail Commissary	1,894,398	1,427,123	-	-	(467,275)
Parking Lots	273,512	273,512	-	-	-
Wetlands Mitigation	348,886	62,258	279,177	-	(7,450)
Total business-type activities	90,900,756	66,934,884	8,579,817	1,406,452	(13,979,603)
Total primary government	\$ 1,573,321,070	202,230,867	805,091,392	10,404,754	\$ (555,594,057)
Component units:					
Airport Authority (Note 2)	288,752,753	249,018,163	6,318,972	40,240,519	\$ 6,824,901
Circuit Court	129,038,164	5,977,038	118,555,992	-	(4,525,134)
Probate Court	12,064,337	802,979	11,261,358	-	-
Stadium Authority	27,045,421	5,520,706	-	244,807,447	223,282,732
Drainage Districts	7,975,077	5,215,579	1,423,397	-	(1,336,101)
Economic Development Corporation	466,175	-	-	-	(466,175)
Brownfield Authority	112,988	6,121	111,657	-	4,790
Total component units	\$ 465,474,915	266,540,586	137,671,377	285,047,966	\$ 223,785,014

(Continued)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Activities, Continued
For the year ended September 30, 2002

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Net (expense) revenue from previous page	\$ (541,614,454)	(13,979,603)	\$ (555,594,057)	\$ 223,785,014
General revenues:				
Property taxes, levied for general purposes	362,890,580	-	362,890,580	-
Investment earnings	30,946,890	510,685	31,457,575	10,822,214
State sales tax	39,683,268	-	39,683,268	-
Airport parking taxes	13,031,194	-	13,031,194	-
Other revenue	7,920,187	201,154	8,121,341	2,577,541
Payment from primary government	-	-	-	12,000,000
Total general revenues	<u>454,472,119</u>	<u>711,839</u>	<u>455,183,958</u>	<u>25,399,755</u>
Change in net assets	(87,142,335)	(13,267,764)	(100,410,099)	249,184,769
Net assets at October 1, 2001	<u>1,336,370,800</u>	<u>530,583,097</u>	<u>1,866,953,897</u>	<u>1,213,428,915</u>
Net assets at September 30, 2002	<u>\$ 1,249,228,465</u>	<u>517,315,333</u>	<u>\$ 1,766,543,798</u>	<u>\$ 1,462,613,684</u>

(Concluded)

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Balance Sheet

Governmental Funds

As of September 30, 2002

	<u>General Fund</u>	<u>Roads</u>	<u>Mental Health</u>
<u>Assets</u>			
Equity in pooled cash and investments (Note 4)	\$ 16,430,055	10,541,266	5,998,681
Other cash and investments (Note 4)	-	2,475	12,350
Due from other funds (Note 10)	86,301,042	19,177,110	22,180,234
Due from component units (Note 10)	21,870,569	2,789,689	-
Receivables:			
Delinquent property taxes	3,700,279	-	-
Accounts receivable	4,201,337	543,254	11,386,549
Due from other governmental units (Note 10)	28,944,691	26,674,621	17,953,699
Total receivables	36,846,307	27,217,875	29,340,248
Supplies inventory	112,534	5,942,305	-
Prepayments and deposits	2,604,685	-	-
Long-term advances (Note 7)	-	7,424,569	-
Total assets	<u>\$ 164,165,192</u>	<u>73,095,289</u>	<u>57,531,513</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts and contracts payable	\$ 20,843,113	5,957,410	43,727,542
Due to other funds (Note 10)	87,242,010	698,405	95,785
Due to component units (Note 10)	-	-	-
Due to other governmental units (Note 10)	6,952,964	17,390,392	28,174,660
Accrued wages and benefits	8,883,961	2,048,352	262,389
Other liabilities	5,676,944	20,022,098	-
Deferred revenue	4,143,257	320	667,653
Total liabilities	133,742,249	46,116,977	72,928,029
Fund balances:			
Reserved for:			
Supplies inventory and prepayments	2,717,219	5,942,305	-
Long-term advances (Note 7)	-	7,424,569	-
Debt service	-	-	-
Capital projects	-	-	-
Unreserved, reported in :			
General fund	27,705,724	-	-
Special revenue funds	-	13,611,438	(15,396,516)
Total fund balances	<u>30,422,943</u>	<u>26,978,312</u>	<u>(15,396,516)</u>
Total liabilities and fund balances	<u>\$ 164,165,192</u>	<u>73,095,289</u>	<u>57,531,513</u>

See accompanying notes to the basic financial statements.

<u>Health</u>	<u>Juvenile Justice and Abuse/Neglect</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
-	1,845,000	51,157,328	\$ 85,972,330
1,170	350	37,323,867	37,340,212
-	3,262,903	17,880,858	148,802,147
-	-	787,966	25,448,224
-	-	-	3,700,279
4,456,044	2,790	6,449,182	27,039,156
<u>1,427,617</u>	<u>32,071,828</u>	<u>13,213,806</u>	<u>120,286,262</u>
5,883,661	32,074,618	19,662,988	151,025,697
67,889	178,908	36,321	6,337,957
-	-	-	2,604,685
-	-	2,431,000	9,855,569
<u>5,952,720</u>	<u>37,361,779</u>	<u>129,280,328</u>	<u>467,386,821</u>
549,653	3,417,041	5,704,803	\$ 80,199,562
4,820,227	33,423,499	33,112,424	159,392,350
100,200	-	1,600,991	1,701,191
-	-	-	52,518,016
482,640	521,239	873,894	13,072,475
-	-	1,928,928	27,627,970
-	-	699,410	5,510,640
<u>5,952,720</u>	<u>37,361,779</u>	<u>43,920,450</u>	<u>340,022,204</u>
67,889	178,908	36,321	8,942,642
-	-	2,431,000	9,855,569
-	-	38,657,988	38,657,988
-	-	10,534,752	10,534,752
-	-	-	27,705,724
<u>(67,889)</u>	<u>(178,908)</u>	<u>33,699,817</u>	<u>31,667,942</u>
-	-	85,359,878	127,364,617
<u>5,952,720</u>	<u>37,361,779</u>	<u>129,280,328</u>	<u>\$ 467,386,821</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
As of September 30, 2002

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - total governmental funds	\$ 127,364,617
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,320,138,309
Internal service funds are used by management to charge the costs of certain activities, such as personnel, central services, information technology and insurance costs to individual funds. The assets and liabilities of certain internal service funds are recorded as governmental activities on the Statement of Net Assets.	110,260,812
Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	4,090,023
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(312,625,296)</u>
Net assets of governmental activities	<u>\$ 1,249,228,465</u>

See accompanying notes to the basic financial statements.

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CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2002

	<u>General Fund</u>	<u>Roads</u>	<u>Mental Health</u>
Revenues:			
Taxes	\$ 294,063,719	-	-
Licenses and permits	171,419	-	-
Federal grants	508,349	13,765,637	-
State grants and contracts	78,157,309	100,475,973	511,041,187
Local grants and contracts	10,597,567	895,771	925,688
Charges for services	72,334,137	10,078,833	15,412,131
Interest and rents	2,171,465	1,461,790	659,400
Other	18,028,524	3,666,447	-
	<hr/>	<hr/>	<hr/>
Total revenues	476,032,489	130,344,451	528,038,406
Expenditures:			
Current operations:			
Legislative	11,869,328	-	-
Judicial	106,125,817	-	-
General government	87,641,808	-	-
Public safety	119,691,768	-	-
Public works	1,611,438	-	-
Highways, streets, and bridges	-	138,220,007	-
Health and welfare	50,511,088	-	560,999,956
Recreational and cultural	-	-	-
Non-departmental	10,556,049	-	-
Capital outlay	-	14,232,771	168,680
Debt service	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	388,007,296	152,452,778	561,168,636
Revenues over (under) expenditures	88,025,193	(22,108,327)	(33,130,230)
Other financing sources (uses):			
Transfers in	36,270,241	-	17,733,714
Transfers out	(123,731,863)	(5,911,365)	-
Proceeds from capital leases	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses):	(87,461,622)	(5,911,365)	17,733,714
Net change in fund balances	563,571	(28,019,692)	(15,396,516)
Fund balances at October 1, 2001	29,859,372	54,998,004	-
	<hr/>	<hr/>	<hr/>
Fund balances at September 30, 2002	\$ 30,422,943	26,978,312	(15,396,516)

See accompanying notes to the basic financial statements.

<u>Health</u>	<u>Juvenile Justice and Abuse/Neglect</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
-	-	35,416,075	\$ 329,479,794
-	-	84,311	255,730
126,001	-	41,062,890	55,462,877
9,177,589	76,830,275	12,856,275	788,538,608
80,000	951,423	5,544,227	18,994,676
19,167,216	67,780	23,978,323	141,038,420
-	-	19,999,463	24,292,118
-	-	3,829,911	25,524,882
<u>28,550,806</u>	<u>77,849,478</u>	<u>142,771,475</u>	<u>1,383,587,105</u>
-	-	-	11,869,328
-	-	882,176	107,007,993
-	-	34,349,143	121,990,951
-	-	15,681,018	135,372,786
-	-	-	1,611,438
-	-	3,097,967	141,317,974
37,000,291	167,274,049	50,365,777	866,151,161
-	-	20,216,706	20,216,706
-	-	-	10,556,049
59,407	55,836	22,591,050	37,107,744
-	-	36,785,248	36,785,248
<u>37,059,698</u>	<u>167,329,885</u>	<u>183,969,085</u>	<u>1,489,987,378</u>
(8,508,892)	(89,480,407)	(41,197,610)	(106,400,273)
8,508,892	89,449,824	26,055,241	178,017,912
-	-	(24,374,684)	(154,017,912)
-	-	19,774,797	19,774,797
<u>8,508,892</u>	<u>89,449,824</u>	<u>21,455,354</u>	<u>43,774,797</u>
-	(30,583)	(19,742,256)	(62,625,476)
-	<u>30,583</u>	<u>105,102,134</u>	<u>189,990,093</u>
-	-	85,359,878	\$ 127,364,617

CHARTER COUNTY OF WAYNE, MICHIGAN
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the year ended September 30, 2002

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (62,625,476)
The change in net assets of the internal service funds is reported with governmental activities in the Statement of Activities.	(2,873,931)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(23,455,038)
The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to decrease capital assets	(905,969)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,040,221)
Expenses in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the funds.	(331,723)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	<u>4,090,023</u>
Change in net assets of governmental activities	<u><u>\$ (87,142,335)</u></u>

See accompanying notes to the basic financial statements.

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CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets
Proprietary Funds
As of September 30, 2002

	Enterprise Funds				Governmental Activities	
	Sewage Disposal Systems			Non-major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	Downriver Sewage	Rooze Valley	CSO Basin			
Assets						
Current assets:						
Equity in pooled cash and investments (Note 4)	\$ 103,011	4,422,926	116,036	1,047,512	\$ 5,689,485	\$ 20,361,033
Due from other funds (Note 10)	64,231	4,691,546	-	124,664	4,880,441	37,029,592
Due from component units (Note 10)	-	-	-	14,992	14,992	957,994
Receivables:						
Delinquent property taxes	-	-	-	-	-	66,489,234
Accounts	71,979	-	-	1,866,491	1,938,470	58,828
Due from other governmental units	4,906,094	9,718,773	4,413,271	5,176,411	24,214,549	18,523
Supplies inventory, at cost	-	-	-	42,268	42,268	-
Prepayments and deposits	23,996	-	-	-	23,996	177,602
Restricted:						
Equity in pooled cash and investments (Notes 4 and 5)	28,431,350	3,448,237	6,385,461	2,031,190	40,296,238	-
Other cash and investments (Note 4)	-	1,649,831	-	-	1,649,831	-
Accounts receivable (Note 5)	10,357,541	111,762	2,674,304	-	12,943,607	-
Total restricted current assets	38,788,891	5,209,830	8,859,765	2,031,190	54,889,676	-
Total current assets	43,958,202	24,043,075	13,889,072	10,303,528	91,693,877	125,092,806
Non-current assets:						
Restricted assets:						
Accounts receivable (Note 5)	91,085	721,421	1,216,685	-	2,029,191	-
Bond principal due from municipalities (Note 5)	194,762,009	5,098,863	37,957,899	5,788,532	243,607,303	-
Total non-current restricted assets	194,853,094	5,820,284	39,174,584	5,788,532	245,636,494	-
Capital assets:						
Land	2,426,717	1,448,847	-	1,012,645	4,888,209	774,752
Land improvements	150,033	-	-	-	150,033	3,642,002
Buildings and improvements	18,831,325	9,019,540	83,341,503	9,960,575	121,152,943	37,928,266
Equipment	134,658	-	-	193,376	328,034	42,447,343
Infrastructure (Sewage Disposal systems)	338,394,709	116,120,788	3,363,652	1,052,873	458,932,022	-
Construction in progress	9,062,309	-	-	155,467	9,217,776	1,573,968
Less accumulated depreciation	(58,537,753)	(31,637,720)	(11,211,139)	(4,633,043)	(106,019,655)	(36,236,849)
Capital assets, net (Note 8)	310,461,998	94,951,455	75,494,016	7,741,893	488,649,362	50,129,482
Other assets:						
Other assets	448,567	2,501	124,990	5,273	581,331	-
Advances to other funds	-	-	-	-	-	30,130,765
Long-term receivables	-	-	-	-	-	76,681,999
Total non-current assets	505,763,659	100,774,240	114,793,990	13,535,696	734,067,187	176,942,246
Total assets	\$ 549,721,861	124,817,315	128,182,662	23,839,226	826,561,064	\$ 302,035,052

(Continued)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets, continued
Proprietary Funds
As of September 30, 2002

	Enterprise Funds					Governmental Activities
	Sewage Disposal Systems			Non-major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	Dowriver Sewerage	Rouge Valley	CSO Basin			
Liabilities and Net Assets						
Current liabilities:						
Accounts and contracts payable	\$ 471,719	7,662,519	2,428	3,301,303	\$ 11,437,969	\$ 6,143,547
Accrued wages and benefits	209,316	-	-	-	209,316	1,335,902
Due to other funds (Note 10)	375,007	64,231	3,264,481	1,222,736	4,926,455	23,862,835
Due to component units (Note 10)	-	316,223	-	-	316,223	-
Due to other governmental units	37,277	-	-	-	37,277	-
Notes payable (Note 11)	-	-	-	-	-	25,159,276
Current portion of long-term debt (Note 11)	-	-	-	-	-	1,642,103
Other liabilities	1,083,146	-	-	45,518	1,128,664	17,113,140
Deferred revenues	1,006,651	-	-	-	1,006,651	-
Payable from restricted assets:						
Accounts payable	1,937,329	139,278	4,071,767	149,998	6,298,372	-
Current portion of long-term debt (Note 11)	11,402,930	725,000	2,255,000	425,000	14,807,930	-
Other liabilities	10,948,707	-	-	-	10,948,707	-
Total current liabilities payable from restricted current assets	24,288,966	864,278	6,326,767	574,998	32,055,029	-
Total current liabilities	27,472,102	8,907,251	9,593,676	5,144,555	51,117,584	75,256,803
Non-current liabilities:						
Payable from restricted assets:						
Accounts payable	916,839	27,610	1,281,482	-	2,225,951	-
Deferred revenues	-	832,449	-	-	832,449	-
Bonds payable from restricted assets (Note 11)	207,757,128	4,353,069	37,596,018	5,363,532	255,069,747	-
Other liabilities	-	-	-	-	-	23,965,795
Advances from other funds	-	-	-	-	-	50,130,765
Notes payable (Note 11)	-	-	-	-	-	42,420,877
Total non-current liabilities	208,673,967	5,213,128	38,877,500	5,363,532	258,128,147	116,517,437
Total liabilities	236,146,069	14,120,379	48,471,176	10,508,087	309,245,731	191,774,240
Net assets:						
Invested in capital assets, net of related debt	91,301,920	89,873,386	35,642,996	1,953,361	218,771,660	31,226,502
Restricted for:						
Delinquent tax administration	-	-	-	-	-	38,438,804
Debt service	18,145,212	2,311,134	1,107,054	1,944,751	23,508,151	-
Unrestricted	204,128,640	18,512,416	42,961,456	9,433,027	275,035,522	40,595,506
Total net assets	313,575,772	110,696,936	79,711,486	13,331,139	517,315,333	110,260,812
Total liabilities and net assets	\$ 549,721,841	124,817,315	128,182,662	23,839,226	\$ 826,561,064	\$ 302,035,052

See accompanying notes to the basic financial statements.

(Continued)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended September 30, 2002

	Enterprise Funds					Governmental Activities
	Sewage Disposal Systems			Non-major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	Downriver Sewage	Romgo Valley	CRO Basins			
Operating revenues:						
Charges for services	\$ 17,076,883	\$ 32,047,633	-	13,234,962	\$ 62,359,478	\$ 186,412,650
Fines and forfeitures	-	-	-	-	-	17,689,014
Rentals and expense recoveries	-	-	-	61,600	61,600	4,038,952
Other charges for services	352,470	191,828	2,268,215	1,701,293	4,513,806	15,426
Total operating revenues	17,429,353	32,239,461	2,268,215	14,997,855	66,934,884	208,156,042
Operating expenses:						
Salaries, wages and benefits	6,395,100	-	-	-	6,395,100	123,487,035
Materials and supplies	1,568,477	28,921	55,108	792,483	2,444,989	2,016,254
Contractual services	7,093,183	32,886,984	1,290,410	13,753,938	55,024,515	37,453,110
Miscellaneous operating	1,838,586	73,215	1,837,616	1,071,388	4,820,805	21,301,683
Depreciation and amortization	8,224,204	1,752,890	3,400,933	343,781	13,721,808	9,468,081
Total operating expenses	25,119,550	34,742,010	6,584,067	15,961,590	82,407,217	193,726,163
Operating income (loss)	(7,690,197)	(2,502,549)	(4,315,852)	(963,735)	(15,472,333)	14,429,879
Non-operating revenues (expenses):						
Interest income	-	392,100	-	118,585	510,685	2,615,837
Collections from participating local units	5,770,568	305,486	2,045,091	179,495	8,300,640	-
Interest expense	(5,886,937)	(301,111)	(2,112,123)	(193,368)	(8,493,539)	(2,013,113)
Federal grants	-	-	-	279,177	279,177	214,292
Gain on sale of securities	35,355	-	151,510	14,289	201,154	-
Total non-operating revenues (expenses)	(81,014)	396,475	84,478	398,178	798,117	817,016
Income (loss) before capital contributions and transfers	(7,771,211)	(2,106,074)	(4,231,374)	(565,557)	(14,674,216)	15,246,895
Capital contributions	1,171,791	-	234,661	-	1,406,452	5,879,174
Transfer out	-	-	-	-	-	(24,000,000)
Change in net assets	(6,599,420)	(2,106,074)	(3,996,713)	(565,557)	(13,267,764)	(2,873,931)
Net assets at October 1, 2001, as Restated	320,175,192	112,803,009	83,708,200	13,896,696	530,583,097	113,134,743
Net assets at September 30, 2002	\$ 313,575,772	110,696,935	79,711,487	13,331,139	\$ 517,315,333	\$ 110,260,812

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Proprietary Funds
Statement of Cash Flows

For the year ended September 30, 2002

Enterprise Funds

Governmental
Activities

	Sewage Disposal Systems				Total Enterprise Funds	Internal Service Funds
	Downriver Sewage	Rouge Valley	CSO Basins	Non-major Enterprise Funds		
Cash Flows from Operating Activities:						
Receipts from customers	\$ 7,758,408	31,292,055	(1,454,126)	15,662,374	\$ 53,258,710	\$216,654,486
Payments to suppliers	(4,079,779)	(32,068,358)	1,775,388	(14,551,945)	(48,924,694)	(150,976,061)
Payments to employees	(6,395,100)	-	-	-	(6,395,100)	(39,894,355)
Internal activity - receipts from other funds	929,690	(3,182,898)	183,140	127,285	(1,942,783)	60,962,908
Internal activity - payments to other funds	(1,256,349)	(1,227,022)	835,958	(180,312)	(1,827,725)	(4,312,749)
Internal activity - receipts from component units	558,368	-	9,339	(2,258,473)	(1,690,766)	1,804,007
Internal activity - payments to component units	(829)	(689)	(33)	-	(1,551)	-
Other operating expenses	459,497	(12,903)	(1,741,270)	(220,329)	(1,515,005)	1,363,393
Other receipts	352,470	191,827	2,268,214	-	2,812,511	-
Net cash provided (used) by operating activities	(1,673,623)	(5,007,988)	1,876,610	(1,421,400)	(6,226,403)	85,601,629
Cash flows from noncapital financing activities:						
Long-term receivable	-	-	-	-	-	(18,510,911)
Advances to other funds	-	-	-	-	-	(50,130,765)
Operating transfers to other funds	-	-	-	-	-	(24,000,000)
Collections from participating local units	5,770,568	305,486	2,045,090	179,495	8,300,639	-
Net cash provided (used) by noncapital and related financing activities	5,770,568	305,486	2,045,090	179,495	8,300,639	(92,641,676)
Cash flows from capital and related financing activities:						
Repayment of long-term debt	(11,727,209)	(675,000)	(2,140,000)	(410,000)	(14,952,209)	(66,185,557)
Proceeds from issuance of long term debt	1,070,258	-	151,510	14,289	1,236,057	67,450,000
Bond principal received from municipalities	14,869,459	585,258	1,925,092	380,710	17,760,519	-
Contribution of capital	1,171,791	-	234,661	234,459	1,640,911	6,093,466
Acquisition of capital assets	(8,726,048)	(481,397)	(3,399,192)	(193,377)	(12,800,014)	(4,573,687)
Disposition of capital assets	-	-	-	-	-	32,299
Interest paid	(5,851,582)	(301,111)	(1,960,613)	(179,079)	(8,292,385)	(2,013,113)
Net cash provided (used) by capital and related financing activities	(9,193,333)	(872,250)	(5,188,542)	(152,998)	(15,407,121)	803,408
Cash flows from investing activities:						
Interest income	-	392,101	-	118,585	510,686	2,615,837
Net cash provided by investing activities	-	392,101	-	118,585	510,686	2,615,837
Net increase (decrease) in cash and cash equivalents	(5,096,388)	(5,182,651)	(1,266,843)	(1,276,318)	(12,822,200)	(3,620,802)
Cash and cash equivalents at September 30, 2001	33,630,749	14,703,645	7,768,340	4,355,020	60,457,754	\$ 23,981,835
Cash and cash equivalents at September 30, 2002	\$ 28,534,361	9,520,994	6,501,497	3,078,702	\$ 47,635,554	\$ 20,361,033
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	\$ (7,690,197)	(2,502,549)	(4,315,852)	(963,735)	\$ (15,472,333)	14,429,879
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	8,224,204	1,752,890	3,400,933	343,781	13,721,808	9,468,061
(Increases) decreases in current assets:						
Accounts receivable	(7,971,626)	204,257	293,464	599,577	(6,874,328)	8,372,862
Due from other funds	929,690	(3,182,898)	183,140	224,063	(1,846,005)	59,831,882
Due from other governmental units	(1,346,849)	(959,835)	(1,747,590)	64,942	(3,989,332)	125,582
Due from other component units	558,368	-	9,339	(2,273,465)	(1,705,758)	3,999,756
Prepayments and deposits	78,858	2,501	25,772	(416)	106,713	-
Increases (decreases) in current liabilities:						
Accounts payable	(294,387)	1,023,078	3,076,479	810,078	4,615,248	(4,956,605)
Due to other funds	(1,256,349)	(1,227,022)	835,958	(262,098)	(1,909,512)	(1,311,006)
Due to component units	(829)	(689)	(33)	-	(1,551)	(4,066,466)
Due to other governmental units	-	-	-	-	-	-
Accrued wages and benefits	-	-	-	-	-	(368,467)
Other accrued liabilities	6,167,906	50,000	115,000	35,873	6,368,779	76,131
Deferred revenue	927,587	(167,720)	-	-	759,867	-
Net cash provided (used) by operating activities	\$ (1,673,623)	(5,007,988)	1,876,610	(1,421,400)	\$ (6,226,403)	\$ 85,601,629
Cash and investments at September 30, 2002 consists of the following:						
Equity in pooled cash and investments	\$ 103,011	4,422,926	116,036	1,047,512	\$ 5,689,485	\$ 20,361,033
Restricted assets:						
Equity in pooled cash and investments	28,431,350	3,448,237	6,385,461	2,031,190	40,296,238	-
Other cash and investments	-	1,649,831	-	-	1,649,831	-
Total cash and investments	\$ 28,534,361	9,520,994	6,501,497	3,078,702	\$ 47,635,554	\$ 20,361,033

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
As of September 30, 2002

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
<u>Assets</u>		
Equity in pooled cash and investments (Note 4)	\$ 12,379,037	\$ 95,949,944
Other cash and investments (Note 4)	-	29,360,343
Accounts receivable	1,512,357	5,491,245
Due from component units (Note 10)	-	391,058
Due from other funds (Note 10)	3,623,351	875,944
Accrued interest receivable	6,850,157	-
Retirement investments (Note 4):		
Money market pooled funds	182,925,540	-
U. S. government obligations	57,065,281	-
Registered investment companies	106,267,886	-
Corporate bonds	127,962,865	-
Common stock	366,653,808	-
Mortgages	112,029,148	-
Mortgage-backed pass-through certificates	138,598,963	-
Investments in partnerships	49,942,448	-
Foreign bonds	39,230	-
Participant loans receivable	20,411,967	-
Total retirement investments	1,161,897,136	-
Capital assets, net (Note 8)	<u>122,722</u>	<u>-</u>
Total assets	<u>\$ 1,186,384,760</u>	<u>\$ 132,068,534</u>
<u>Liabilities</u>		
Accounts and contracts payable	\$ 316,206	\$ 22,031,576
Due to other funds (Note 10)	3,645,292	3,384,543
Due to other governmental units (Note 10)	-	2,238,097
Accrued wages and benefits	45,972	2,492,381
Other liabilities	-	101,921,937
Total liabilities	<u>\$ 4,007,470</u>	<u>\$ 132,068,534</u>
<u>Net Assets</u>		
Held in trust for pension benefits	<u>\$ 1,182,377,290</u>	

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended September 30, 2002

	<u>Pension and Other Employee Benefit Trust Funds</u>
<u>Additions</u>	
Investment income (loss):	
Net depreciation to fair market value	\$ (79,767,584)
Interest and dividends	52,505,388
Other investment income	279,248
Investment expenses	<u>(3,154,435)</u>
Net investment loss	(30,137,383)
Retirement contributions:	
Employer	24,533,920
Employee	<u>24,071,133</u>
Total retirement contributions	<u>48,605,053</u>
Total additions	18,467,670
<u>Deductions</u>	
Administrative expenses:	
Personnel	1,025,731
Fringe benefits	399,860
Pension	35,155
Materials and supplies	84,070
Travel	48,489
Rentals	89,461
Depreciation and amortization	1,370,590
Miscellaneous operating	<u>750,555</u>
Total administrative expenses	3,803,911
Participant benefits - retirement benefits	<u>124,595,512</u>
Total deductions	<u>128,399,423</u>
Net decrease to net assets	(109,931,753)
Net assets at October 1, 2001	<u>1,292,309,043</u>
Net assets at September 30, 2002 (Note 12)	<u>\$ 1,182,377,290</u>

See accompanying notes to the basic financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets
Component Units
As of September 30, 2002

<u>Assets</u>	<u>Airport Authority</u>	<u>Circuit Court</u>	<u>Non-major Component Units</u>	<u>Total Component Units</u>
Current assets:				
Equity in pooled cash and investments (Note 4)	\$ 35,479,497	-	17,821,890	\$ 53,301,387
Other cash and investments (Note 4)	-	6,000	931,593	937,593
Due from primary government (Note 10)	1,583,487	117,704	316,223	2,017,414
Receivables:				
Accounts receivable, net	16,031,395	1,640,477	8,072,298	25,744,170
Special assessment	-	-	30,292,527	30,292,527
Due from other governmental units, net	18,930,720	8,449,678	2,456,755	29,837,153
Supplies inventory, at cost	-	-	-	-
Prepayments and deposits	-	987,686	6,200	993,886
Restricted assets (Note 5):				
Equity in pooled cash and investments	246,801,886	-	-	246,801,886
Other cash and investments	121,652,112	-	-	121,652,112
Accounts receivable	9,826,114	-	-	9,826,114
Total current assets	450,305,211	11,201,545	59,897,486	521,404,242
Non-current assets:				
Restricted other cash and investments	53,675,441	-	-	53,675,441
Capital assets, net of accumulated depreciation (Note 8)	2,098,243,232	15,348,222	749,889,042	2,863,480,496
Other assets:				
Bond issuance cost, net of amortization	23,473,188	-	-	23,473,188
Deposits	626,874	-	-	626,874
Total other assets	24,100,062	-	-	24,100,062
Total assets	\$ 2,626,323,946	26,549,767	809,786,528	\$ 3,462,660,241

(Continued)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Net Assets, Continued
Component Units
As of September 30, 2002

<u>Liabilities and Net Assets</u>	<u>Airport Authority</u>	<u>Circuit Court</u>	<u>Non-major Component Units</u>	<u>Total Component Units</u>
Current liabilities:				
Accounts and contracts payable	\$ 15,706,422	1,078,580	2,473,747	\$ 19,258,749
Accrued wages and benefits	2,055,754	-	7,820,696	9,876,450
Due to primary government (Note 10)	3,933,030	22,373,912	505,328	26,812,270
Due to other governmental units	72,197	314,910	104,133	491,240
Current portion of long-term debt (Note 11)	-	3,436,101	4,556,479	7,992,580
Deferred revenue	-	-	-	-
Other liabilities:	<u>10,372,061</u>	<u>2,289,893</u>	<u>337,095</u>	<u>12,999,049</u>
Total current liabilities payable from current assets	32,139,464	29,493,396	15,797,478	77,430,338
Payable from restricted assets:				
Current portion of long-term debt (Note 11)	31,290,000	-	-	31,290,000
Accrued interest payable	27,333,711	-	-	27,333,711
Deferred revenue	<u>267,744</u>	<u>163,417</u>	<u>28,333</u>	<u>459,494</u>
Total current liabilities payable from restricted assets	58,891,455	163,417	28,333	59,083,205
Total current liabilities	91,030,919	29,656,813	15,825,811	136,513,543
Other liabilities	445,801	-	-	445,801
Long-term obligations:				
Non-current portion of long-term obligations (Note 11)	1,748,847,115	-	107,536,049	1,856,383,164
Other long-term obligations (Note 11)	<u>-</u>	<u>6,704,049</u>	<u>-</u>	<u>6,704,049</u>
Total long-term obligations	1,748,847,115	6,704,049	107,536,049	1,863,087,213
Total liabilities	1,840,323,835	36,360,862	121,361,860	2,000,046,557
Net assets:				
Invested in capital assets, net of related debt	485,901,921	5,208,072	651,154,148	1,142,264,141
Restricted for bond programs	178,264,510	-	7,204,624	185,469,134
Restricted for capital projects	14,105,849	-	2,431,366	16,537,215
Unrestricted	<u>107,727,831</u>	<u>(15,019,167)</u>	<u>21,634,330</u>	<u>118,343,194</u>
Total net assets	786,000,111	(9,811,095)	686,424,668	1,462,613,684
Total liabilities and net assets	\$ 2,626,323,946	26,549,767	809,786,528	\$ 3,462,660,241

See accompanying notes to the basic financial statements.

(Concluded)

CHARTER COUNTY OF WAYNE, MICHIGAN
Statement of Activities
Component Units
For the year ended September 30, 2002

	Airport Authority	Circuit Court	Non-major Component Units	Total Component Units
Expenses	\$ 288,752,753	129,058,164	47,663,998	\$ 465,474,915
Program revenues:				
Charges for services	249,018,163	5,977,038	11,545,385	266,540,586
Operating grants and contributions	6,318,972	118,555,992	12,796,413	137,671,377
Capital grants and contributions	<u>40,240,519</u>	<u>-</u>	<u>244,807,447</u>	<u>285,047,966</u>
Total program revenues	295,577,654	124,533,030	269,149,245	689,259,929
Net (expense) / revenue	6,824,901	(4,525,134)	221,485,247	223,785,014
General revenues:				
Payment from the primary government		12,000,000	-	12,000,000
Investment earnings	10,490,990	-	331,224	10,822,214
Other revenue	<u>1,583,487</u>	<u>-</u>	<u>994,054</u>	<u>2,577,541</u>
Total general revenues	<u>12,074,477</u>	<u>12,000,000</u>	<u>1,325,278</u>	<u>25,399,755</u>
Change in net assets	18,899,378	7,474,866	222,810,525	249,184,769
Net assets at October 1, 2001, as Restated	<u>767,100,733</u>	<u>(17,285,961)</u>	<u>463,614,143</u>	<u>1,213,428,915</u>
Net assets at September 30, 2002	<u>\$ 786,000,111</u>	<u>(9,811,095)</u>	<u>686,424,668</u>	<u>\$ 1,462,613,684</u>

See accompanying notes to the financial statements.

CHARTER COUNTY OF WAYNE, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the year ended September 30, 2002

Index
Notes to the Basic Financial Statements

	<u>Page</u>
1. Summary of Significant Accounting Policies	II-37
2. New Accounting Pronouncements	II-46
3. Airport Authority	II-48
4. Cash and Investments	II-49
5. Restricted Assets	II-51
6. Major Customer – Airport Authority Component Unit	II-52
7. Long-term Receivables	II-53
8. Capital Assets	II-53
9. Property Taxes	II-61
10. Interfund Transfers, Balances and Advances	II-64
11. Debt and Other Obligations	II-70
12. Employee Benefits	II-89
13. Fund Deficits	II-97
14. Commitments and Contingencies	II-97
15. Self Insurance	II-99
16. Budget Matters	II-100

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies**

A. **Reporting Entity**

The Charter County of Wayne, Michigan (County), was incorporated in 1796 and covers an area of approximately 623 square miles. The County provides services to more than 2 million residents in many areas, including law enforcement, administration of justice, community enrichment and development, and human services. The citizens of the County operate under a Home Rule Charter that provides for government by a legislative branch, which is comprised of the 15 elected commissioners, and an executive branch, which is headed by an elected chief executive officer (County Executive). The County Executive is the County's chief administrator and manages the County's eleven executive departments, including Children and Family Services, Corporation Counsel, Environment, Health and Human Services, Homeland Security/Emergency Management, Jobs and Economic Development, Management and Budget, Personnel/Human Resources, Public Services, Senior Citizens and Veterans Affairs, and Technology. In addition, the primary government includes other elected officials including the County Clerk, Prosecuting Attorney, Register of Deeds, Sheriff, and the Treasurer. The component units and other entities discussed below have been included as part of the reporting entity because of the significance of their operational or financial relationship to the County.

The Wayne County Employees' Retirement System (Retirement System), which is governed by the Wayne County Retirement Ordinance, is included as part of the County's fiduciary operations. The Retirement Commission oversees the ongoing operations of the Retirement System in accordance with the Retirement Ordinance.

The Detroit-Wayne Joint Building Authority (Joint Authority) is a joint venture arrangement between the City of Detroit (City) and the County. In March 1988, the City and County agreed to a consent judgment whereby the County's equity in the ownership of a portion of the Coleman A. Young Municipal Center (CAYMC), formerly known as the City-County Building, was transferred to the City, thereby eliminating the County's equity interest. In addition, the Joint Authority also approved an amendment to its lease with the County in connection with proposed renovations to space occupied by the County. The amendment extended the County's lease term to September 2026, identified the Joint Authority's intention to renovate the facilities, and committed the County for the repayment of the debt used to finance the renovations. In 1988, the Joint Authority issued bonds, the proceeds of which were used to renovate the CAYMC for use by the County courts. These bonds are backed by the full faith and credit of the County. Rentals are paid to the Joint Authority by the County's General Fund to cover the Joint Authority's principal and interest payments on debt. The County's obligation to the Joint Authority, which conforms to the Joint Authority's calendar year, is included in the financial statements of the primary government.

Component Units

The financial statements of component units have been included in the financial reporting entity either as blended component units or discretely presented component units.

Blended Component Units - Blended component units are legally separate entities from the County, but are, in substance, part of the County's operations and so data from these units are combined with data of the primary government.

The Wayne County Building Authority (WCBA) was established to acquire, furnish, equip, own, improve, enlarge, operate and/or maintain buildings and building sites for lease to, and eventual

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies, Continued**

ownership by the County. It is managed by a five-member board appointed by the County Executive, subject to approval by the Wayne County Commissioners. The County has pledged certain revenues, including a specific portion of its general property tax revenues, to secure the payment of certain outstanding obligations of the County and the WCBA. The pledge of such a specific portion of its general property tax revenues is superior to the County's pledge of its limited tax full faith and credit for cash rentals under a contract. The WCBA has no taxing authority. The WCBA is presented as a non-major governmental fund.

Discretely Presented Component Units - Discretely presented component units are entities that are legally separate from the County but for which the County is financially accountable, or their relationships with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. These component units are reported in separate columns in the government-wide statements to emphasize that they are legally separate from the County.

The Wayne County Airport Authority (Airport Authority) was established on August 9, 2002 under Public Act 90 of 2002 to control and operate the Detroit Metropolitan Wayne County Airport the Willow Run Airport (the Airports) and Airport Hotel.

The Airport Authority is managed by a seven-member board, with four members appointed by the County Executive, two members appointed by the Governor of the State of Michigan, and one member appointed by the Wayne County Commission. The appointments of the County Executive and the Governor are not subject to confirmation by the State Legislature or the Wayne County Commission. For additional information on the Airport Authority, refer to Footnote 3.

The Third Circuit and Probate Courts (Courts) were established under the Constitution of the State of Michigan and comprise a portion of the judicial branch of the State of Michigan. Although the Courts were not created as a separate body corporate or body corporate and politic, they possess the prerequisite corporate powers and budgetary autonomy to support their inclusion as discretely presented component units. Both Courts are headed by a duly elected chief judge. The Courts preside over judicial proceedings within the County. The Courts are fiscally dependent on the County and have no taxing power. The Court Reorganization Act, 1996 P.A. 388, designated the County as the primary funding unit for Court operations.

There are three separate divisions of Third Circuit Court (Circuit Court): Civil, Criminal, and Family Court. The Civil Division is assigned 25 judges for the resolution of general civil cases initiated within the County, where the amount of the controversy exceeds \$10,000. The Criminal Division is assigned 32 judges and has sole jurisdiction over felonies and high misdemeanors occurring within the County. The Family Court Division is divided into Domestic and Juvenile Sections. The Domestic Section is assigned seven judges and is responsible for hearing all domestic relation cases filed within the County. The Juvenile Section is assigned three judges, along with a staff of referees, and exercises exclusive jurisdiction over juveniles under 17 years of age in delinquency proceedings, and children under 18 years of age in protective proceedings. Each child coming within the jurisdiction of the Family Court is entitled to receive the care, guidance, and control, as will be conducive to the child's welfare and the best interest of the State. The Courts are located in the CAYMC in downtown Detroit.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

Probate Court has eight judges who have jurisdiction in all matters related to settlement of estates, trusts and appointment of trustees within the County. In addition, the Court appoints guardians and conservators for minors and other legally incapacitated persons. The Court has jurisdiction over numerous other matters ranging from mental illness, to communicable diseases, to substance abuse and to certain child custody issues.

The Detroit-Wayne County Stadium Authority (DWCSA) was incorporated by the County on August 20, 1996 under the provisions of Public Act 31 for the purpose of constructing and maintaining two new sports stadiums, Comerica Park and Ford Field, home of the Detroit Tigers Professional Baseball Team and of the Detroit Lions Professional Football Team, respectively. The DWCSA's Articles of Incorporation provide for a six-member board ("the Commission"). Each member of the Commission is appointed by the County Executive, with three members recommended by the Mayor of the City of Detroit. On April 1, 1997, the DWCSA issued bonds totaling \$85,815,000. The County has pledged its limited tax full faith and credit for payment of the cash rentals to the DWCSA under a contract dated March 1, 1997 to pay debt service. The County has also pledged certain motor vehicle rentals and hotel tax revenues levied by the County pursuant to Act No. 180, Public Acts of Michigan 1991. The DWCSA has no taxing authority.

Chapters 8, 20 and 21 Drainage Districts are established under the State of Michigan Drain Code (Public Act 40 of 1956, as amended; the "Drain Code") to provide for the construction, maintenance and funding of drains, sewers, and equipment used in water management and flood control. Each of the individual drainage districts is a separate legal entity, with the power to sue and to be sued, and to hold, manage, and dispose of real and personal property. The full faith and credit of the County is generally given for the long-term debt of the drainage districts. There are approximately 150 drainage districts that are assessed by the County. The drainage districts are grouped and reported as follows:

Chapter 8 Drainage Districts are inter- and intra-County drainage districts that are operated, maintained, and extended pursuant to the provisions in the Drain Code which allow for assessment of the related costs to the specific owners of the benefited parcels of property or to the benefited public corporations. The Wayne County Drain Commissioner (the County's Director of Public Works) is responsible for determining the yearly assessments. Under the Drain Code, the County is responsible for Chapter 8 drainage district administrative costs for maintenance.

Chapter 20 Drainage Districts are intra-County drainage districts that are operated, maintained, and extended pursuant to the provisions in the Drain Code which allow for at-large assessment of costs against either the benefited public corporations or the specific owners of benefited parcels of property. The Chapter 20 Districts have Drainage Boards that are responsible for determining the yearly assessments. Each district's board statutorily consists of three members: the Wayne County Drain Commissioner, the district's County Commissioner, and an appointee of the County Executive. The full faith and credit of the County has been pledged for the long-term debt of the drainage districts.

Chapter 21 (Milk River) Drainage District is an inter-County drainage district which is operated, maintained, and extended pursuant to the provisions in the Drain Code which allow for assessment of the related costs to either the benefited public corporations or the specific owners of benefited

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies, Continued**

parcels of property. The District has a Drainage Board that is responsible for determining the yearly assessments. The District's drainage board statutorily consists of three members: the Director of Agriculture of the State of Michigan (chairperson), the Wayne County Drain Commissioner, and the Drain Commissioners for each of the counties of the specific drainage district. The County has pledged its full faith and credit for the long-term debt of the districts.

The Economic Development Corporation of Wayne County (EDC) is a separate legal entity that was established pursuant to Michigan Public Act 338 of 1974. Its 11-member board is appointed by the County Executive. The EDC acts on behalf of and at the direction of the County. Services include financial packaging, site location services, and low-cost financing to businesses locating or expanding in the County. The EDC's primary fiscal activity is to provide administration of federal grants on behalf of and for the benefit of the County. The EDC is fiscally dependent on the County and has no taxing authority.

The Brownfield Redevelopment Authority (BRA) was established by State enabling legislation. The BRA will assist the Wayne County Department of Environment and the various Wayne County communities involved with the Urban Recovery Partnership to facilitate the redevelopment of unproductive, contaminated and/or blighted property by providing tax incentives. The BRA's 11-member board is appointed by the County Executive. The BRA acts on behalf of and at the direction of the County.

Detailed financial information for each of the individual component units and the Detroit-Wayne Joint Building Authority may be obtained at the entity's administrative offices as follows:

Detroit-Wayne Joint Building Authority
1316 Coleman A. Young Municipal Center
Two Woodward Avenue
Detroit, Michigan 48226

Wayne County Building Authority
600 Randolph, Third Floor
Detroit, Michigan 48226

Circuit Court
711 Coleman A. Young Municipal Center
Two Woodward Avenue
Detroit, Michigan 48226

Probate Court
1305 Coleman A. Young Municipal Center
Two Woodward Avenue
Detroit, Michigan 48226

Wayne County Airport Authority
Detroit Metropolitan Wayne County Airport
L.C. Smith Terminal-Mezzanine
Detroit, Michigan 48242

Economic Development Corporation of Wayne County
600 Randolph, Room 323
Detroit, Michigan 48226

Detroit-Wayne County Stadium Authority
600 Randolph, Suite 300
Detroit, Michigan 48226

Chapters 8, 20, and 21 Drainage Districts
Wayne County Department of Environment
415 Clifford, Seventh Floor
Detroit, Michigan 48226

Brownfield Redevelopment Authority
600 Randolph, Suite 323
Detroit, Michigan 48226

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies, Continued**

Related Organizations

County officials are also responsible for appointing members of boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. County officials appoint the board members of the Wayne County Council for the Arts, Inc., HealthChoice of Michigan, Inc., Housing and Community Development Corporation of Wayne County, and Wings Over Wayne.

B. **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements

The County's financial statements include government-wide financial statements (reporting the County as a whole) and fund financial statements (reporting the County's major funds individually and non-major funds in the aggregate). The government-wide financial statements categorize primary activities as either governmental or business-type. The County's legislative, judicial, general government services public safety, public works, highways, streets and bridges, health and welfare, recreation and cultural, and non-departmental are classified as governmental activities as they are largely supported by taxes and intergovernmental revenue. The County's sewage disposal systems, jail commissary, parking lots, and wetlands mitigation services are classified as business-type activities as they rely on fees and charges for support.

Government-wide financial statements display information about the County as a whole, excluding fiduciary funds and component units that are fiduciary in nature.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis, by column, and are reported on a full accrual basis of accounting and the economic resources measurement focus, in which all long-term assets and receivables, as well as long-term-debt and obligations, are recognized. The County's net assets are reported in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's governmental functions and business-type activities. The functions are also supported by general government revenues. General revenues include all taxes, property taxes, investment earnings, and sales and parking taxes. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Direct expenses are those that are specifically associated with a service, program or department and are clearly identifiable to a specific function. Indirect expenses for centralized services and administrative overhead are included as part of the direct expenses reported for the various functional activities. Program revenues must be directly associated with a governmental or business-type activity. Amounts reported as program revenues include charges to customers for goods or services provided, operating grants and contributions, and capital grants and contributions, including special assessments. Operating grants include operating-specific and discretionary grants, while capital grants include capital-specific grants only. Internally dedicated resources are reported as general revenues rather than as program revenues. Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred,

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, state sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are activities between funds reported as governmental activities and funds reported as business-type activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

Fund Financial Statements

Separate fund financial statements are presented for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements. Non-major governmental, non-major enterprise, internal service, pension (and other employee benefit) trust funds, and agency funds, are presented in the aggregate, and in individual columns, in the fund financial statements.

Governmental fund financial statements include those funds used to account for the County's general government activities. All governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recorded when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County generally considers revenues to be available if they are collected within 60 days of the end of the fiscal period.

Property taxes, industrial facilities taxes, interest and rents, and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the County and are recognized as revenue at that time. Entitlements and State-shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures are recognized as payable on the modified accrual basis when the liability is incurred, except for principal and interest on general long-term obligations, compensated absences, and claims, litigation, and assessments, which are recognized when due.

The County reports the following major governmental funds:

- **General Fund - The General Fund accounts for all financial resources and expenditures except those required to be accounted for in other funds. The General Fund is the County's primary operating fund.**

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

- **Roads Fund** – This fund is used to account for the operations associated with the maintenance and construction of certain roads, streets, and bridges located within the County. These operations are funded principally by the federal government, the State of Michigan, and local governmental units within the County.
- **Mental Health Fund** – This fund is used to account for revenue reserved for providing mental health services within the County.
- **Health Fund** – This fund is used to account for revenue reserved for the purpose of providing health protection, maintenance, and improvement for the residents of the County.
- **Juvenile Justice and Abuse/Neglect Fund** – This fund accounts for the cost of providing required foster care and/or residential care to abused, neglected, and delinquent children in the County, including County residents who become wards of the State of Michigan.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All proprietary funds are reported on a full accrual basis of accounting and the economic resources measurement focus.

The County reports the following major enterprise funds and internal service funds:

- **Downriver, Rouge Valley, and Combined Sewage Overflow (CSO) Basins Sewage Disposal System Funds** – These major funds are used to record the fiscal activities associated with operation and maintenance of the Downriver, Rouge Valley, and CSO Basins sewage treatment facilities. Costs are recovered through development of usage rates, which are billed to the local communities served.
- **Internal Service Funds** – These funds are used to account for the costs of certain goods, services, and activities (such as personnel, central services, information technology, employee health benefits, property insurance, capital asset acquisitions, etc.) provided by one department to another department or to component units of the County.

The County reports the following fiduciary fund types:

- **Pension (and Other Employee Benefit) Trust Funds** - The pension trust funds are used to account for the assets of the County's employees' pension plan. These funds are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting.
- **Agency Funds** - These funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the County holds for others in an agency capacity.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies, Continued**

The County reports the following major component units:

- **Airport Authority Funds** – These funds are used to account for the operation and maintenance of the Airports and the Airport Hotel. Airport revenues are primarily derived from landing fees, leases, and rentals received from users or fee-based operations. Activities associated with the Airport Hotel include funding the construction and furnishing of an airport hotel at the new McNamara Terminal at the Detroit Metropolitan Wayne County Airport.
- **Circuit Court** – The Court presides over judicial proceedings initiated within the County through its Civil, Criminal and Family Court divisions. These divisions are responsible for the resolution of general civil cases; felonies and high misdemeanors; domestic relation cases; and jurisdiction over juveniles in delinquency and protective proceedings.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, and amended by Statement No. 34, the government-wide statements and proprietary fund statements follow all GASB pronouncements and Financial Accounting Standards Board Statements (FASB) and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements. The County has the option to apply FASB pronouncements issued after November 30, 1989, for business-type activities and enterprise funds, but has chosen not to do so.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

C. **Assets, Liabilities, and Net Assets or Equity**

Bond Issuance Costs - The principal component of other assets in the enterprise funds represents bond issuance costs. Such issuance costs are amortized principally using methods that approximate the effective interest method.

Capital Assets - Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Infrastructure assets are defined as long-lived capital assets, that are stationary in nature and can be preserved longer than most other capital assets and that have an initial, individual cost of more than \$5,000.

Equipment, buildings, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in either the governmental or business-type activities column in the government-wide financial statements. All capital assets are recorded at historical cost or estimated historical cost, if actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) **Summary of Significant Accounting Policies, Continued**

Capital assets of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	25
Infrastructure:	
Roadway signage	7-15
Bridges, dams and roadways	25-50
Sewer systems	80
Airport paving	10
Airport systems	20-25
Machinery and equipment, vehicles	5-10
Office equipment	5

Cash and Investments - Cash resources of the individual funds, except as specifically stated by Comprehensive Investment Policy Ordinance, are pooled and invested. Interest on pooled investments is allocated among the respective funds based on average investment balances. Securities traded on national or international exchanges are valued at last reported sales price at current exchange rates, which represent fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at the prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value. Gains or losses on investments sold or exchanged are recognized when the transactions are completed (settlement dates).

Cash Flows - For purposes of the Statement of Cash Flows, the County considers cash equivalents as all highly liquid investments, including restricted assets, with a maturity of three months or less from the date of acquisition.

Compensated Absences - County employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned and sick pay vests upon completion of two years of service. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited.

In the government-wide and proprietary fund financial statements, all vacation and sick pay is accrued when earned by the employee. In the governmental fund financial statements, the governmental funds report an expenditure for vacation and sick pay when used by the employee or upon separation.

Deferral of Gains and Losses on Refunding - For enterprise funds, the County defers the difference between the reacquisition price and the net carrying amount of the old debt in a refunding. The deferred amount is amortized and recorded as a component of interest expense.

Deferred Revenue - In the governmental funds, deferred revenue represents revenue that is estimable but not available to finance current operations. Accordingly, these revenues are deferred until such time as they are available.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not subject to appropriation or are legally segregated for a specific purpose.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

Reservations of fund balances generally represent outside third-party restrictions or non-current assets that are not available to fund current liabilities.

Inventories - Inventories are valued at cost, primarily using the weighted average cost flow assumption. Expenditures are recognized as inventory items are used. Fund balances in governmental funds have been reserved for the amount of inventory on hand at September 30, 2002, as that portion of fund balance is unavailable for appropriation or expenditure.

Passenger Facility Charges - The Detroit Metropolitan Wayne County Airport assesses passenger facility charges of \$4.50 per passenger. The passenger facility charges are recorded as non-operating revenues and may only be expended on capital and non-capital projects approved by the federal government. Net assets related to unexpended passenger facilities charges are restricted.

(2) New Accounting Pronouncements

Effective October 1, 2001, the County implemented several new accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which establishes new guidance for the measurement and display of information in the financial statements, as well as related note disclosures and required supplementary information. Significant provisions of the Statement include the following:

- Management Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for the County's activities within the government wide-financial statements
- Infrastructure reporting
- Focus on major funds in the fund financial statements

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The cumulative effect of applying this Statement is reported as a restatement of beginning net assets, as appropriate, for the current period. The County has implemented the general provisions of the Statement and retroactively reported infrastructure (assets acquired since December 30, 1980) in the fiscal year ending September 30, 2002.

As a result of implementing GASB Statement No. 34, the following funds have restated their beginning of the year net asset balance as follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(2) **New Accounting Pronouncements, Continued**

Fund	Increase (Decrease) in Net Assets
Governmental Activities:	
Internal Service Funds	\$ (11,428,036)
Business-type Activities:	
Downriver Sewage Disposal Systems Fund	57,772,541
Rouge Valley Sewage Disposal System Fund	16,213,127
CSO Basins Sewage Disposal Systems Fund	(1,704,469)
Non-major Enterprise Funds	77,280
Component Units:	
Airport Authority	(56,225,075)
Fiduciary Funds	(187,350)
	\$ 4,518,018

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, which amends GASB Statement No. 21, *Accounting for Escheat Property* and GASB Statement No. 34, which clarifies certain provisions of GASB 34 for more consistent application and modifies other provisions to meet changing requirements.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures. The adoption of GASB Interpretation No. 6 did not have a material effect on the financial statements.

The provisions of these new standards have been incorporated into the financial statements and notes.

Effective October 1, 2001, the operations and accounts of the Golf Course Fund, an enterprise fund, were merged into the operations of the Parks Fund, a special revenue fund. The activities of the Golf Course Fund no longer met the criteria for treatment as an enterprise fund, as discussed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as the costs of its activities were not being recovered by its fees and charges. The effect of this change on the beginning fund balance of the Parks Fund was an increase of \$146,598.

Effective September 30, 2002, the capital assets of the Golf Course Fund were sold by the Parks Fund to the Equipment Lease Financing (ELF) Fund. Refer to Note 7 for additional discussion.

The Airport Authority (the Authority) is an independent public benefit agency and considered an agency of the County for the purposes of federal and state laws but is not subject to any County charter requirements or the direction or control of either the County Executive or the Wayne County Commission. The Authority is charged with the responsibility to operate and run the activities of the Airports and the Airport Hotel. The financial statements of the Authority include the operations of the Detroit Metropolitan Wayne County Airport, the Willow Run Airport and the Airport Hotel. The Authority is included as a discretely presented component unit in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No.14, *The Reporting Entity*.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(3) The Airport Authority

On March 26, 2002, the State of Michigan (the State) enacted Public Act 90 of 2002 (PA 90 or the Act) authorizing the transfer of the Metropolitan Airport and Willow Run Airport management from the County to the separately created Authority. This Act provides for the transfer of exclusive control of the Authority's operations, including the transfer of the Authority's liabilities, employees, and operational jurisdiction to this newly created Authority. For financial reporting purposes, the provisions of the Act were applied effective October 1, 2001. Prior to the legislation, the Authority was operated by the County and reported as three enterprise funds.

Key provisions of the Act that have significant impact on accounting and financial reporting include:

- a. The County retains title to all real property including buildings and improvements.
- b. Exclusive control and operational jurisdiction was transferred from the County to the Authority.
- c. The Authority acquired the right to occupy, operate, control and use the Metro and Willow Run Airport facilities.
- d. The Authority acquires and succeeds to all rights, title and interest in and to the furniture, fixtures, equipment and materials used for the purposes of the Authority's prior to transfer.
- e. The Authority assumes all the liabilities of the Metropolitan and Willow Run Airports and will be responsible for payments on all the bonds outstanding as of the effective date, August 9, 2002. The Authority must also indemnify and hold harmless the County for any civil claim or action relating to the Authority.
- f. The Authority assumes unfunded obligations to provide pensions and/or retiree health insurance attributable to the employees of the Metropolitan and Willow Run Airports who elect to transfer to the Authority.
- g. All cash balances and investments relating to or resulting from the operations of the Authority and all funds held under an ordinance, resolution or indenture related to or securing obligations of the County that have been assumed by the Authority and all accounts receivable arising from the operations of the Authority shall be transferred to the Authority.

The Metropolitan Airport has airport use contracts with 15 airlines, which constitute approximately 94 percent of total landed weight in 2002. The Metro Airport has agreements with various concessionaires (parking, food service, rental car agencies, etc.) for which the Metro Airport pays a management fee or receives a commission.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(4) Cash and Investments

At September 30, 2002, the County's cash and investments are categorized as follows:

Investment Type	Risk Category	Governmental Activities	Business-Type Activities	Component Units	Fiduciary	Totals
Deposits - (Cash and Certificates of Deposit)	N/A	\$ 8,823,513	39,522,614	43,831,682	25,255,134	\$ 117,432,943
Commercial Paper	1	25,968,515	-	166,994,096	138,742,194	331,704,805
Money Market Pooled Funds	N/A	39,167,714	2,080,513	91,257,553	83,937,234	216,443,014
U.S. Government Obligations	1	45,035,792	6,032,427	174,285,088	55,572,995	280,926,302
Mutual Funds	N/A	-	-	-	192,002,864	192,002,864
Municipal Bonds	1	-	-	-	1,113,524	1,113,524
Corporate Bonds	1	-	-	-	127,962,863	127,962,863
Common Stock	1	-	-	-	353,599,134	353,599,134
Government Insured and Other Mortgages	N/A	24,678,042	-	-	211,855,622	236,533,664
Participant Loans - Promissory Notes	N/A	-	-	-	109,544,896	109,544,896
		<u>\$ 143,673,576</u>	<u>47,635,554</u>	<u>476,368,419</u>	<u>1,299,586,460</u>	<u>\$ 1,967,264,009</u>

	Equity in Pooled Cash and Investments	Other Cash and Investments	Total
Governmental activities	\$ 106,333,364	37,340,212	\$ 143,673,576
Business-type activities	<u>45,985,723</u>	<u>1,649,831</u>	<u>47,635,554</u>
Total	<u>152,319,087</u>	<u>38,990,043</u>	<u>191,309,130</u>
Fiduciary funds	108,328,981	1,191,257,479	1,299,586,460
Component Units	<u>300,103,273</u>	<u>176,265,146</u>	<u>476,368,419</u>
Total Reporting Entity	<u>\$ 560,751,341</u>	<u>1,406,512,668</u>	<u>\$ 1,967,264,009</u>

At year-end, deposits consisted primarily of cash and certificates of deposit. The carrying amount of the County's deposits was \$117.4 million and the bank balance was \$121.4 million. Of the bank balance, \$1.7 million was covered by federal depository insurance and \$119.7 million was uninsured and uncollateralized.

In accordance with GASB Statement No. 3 *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, investments are categorized to give an indication of the level of risk assumed by the entity as follows:

Category 1: Investments that are insured or registered, or for which the securities are held by the County or its agent in the County's name.

Certain types of investments, such as money market pooled funds and mutual funds, are not categorized because they are not evidenced by securities that exist in physical or book-entry form.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(4) Cash and Investments, Continued

The County maintains 47 cash and investment pools, of which 44 are trust pools, which are administered by third party trustees. The Wayne County Treasurer administers the remaining three cash and investment pools. The General Pool is available for use by all funds; the Bond Reserve Pool is used for specific bond funds, and the Building Authority Pool consists of resources related to the WCBA capital improvement bonds.

The trust pools administered by third party trustees consist of resources related to specific bond issues for funding the cost of certain capital improvements, including acquiring, construction, equipment, and furnishing projects.

The portion of the 47 pools for each major fund is displayed in the fund financial statements as "Equity in pooled cash and investments." Certain amounts deposited in the General Pool may be designated or restricted for grants, programs, or other purposes. Accounting control is maintained over these pooled designated or restricted balances.

Investments are also separately held in trust accounts by several of the County's funds, including General Debt Service, Stadium Authority, Building Authority, Budget Stabilization, Rouge Valley Sewage Disposal System, Detroit Metropolitan Wayne County Airport, Trust and Agency, Retainages, and Pension Trust funds.

Cash and investments in the pooled accounts are allocated to the respective County funds and accounts based on an internal ledger system maintained by the County Treasurer. At September 30, 2002, restricted cash and investments in the General Pool totaled \$26.0 million. Restricted cash and investments in the Bond Reserve Pool totaled \$38.8 million. Restricted cash and investments in the Downriver Bond and Interest Pool and the Downriver Bond Reserve Pool totaled \$1.7 million and \$0.2 million, respectively.

Restricted cash and investments in the Airport Construction and Operation Pool and the Airport Debt Service Pool totaled \$53.2 million and \$52.9 million, respectively. Restricted cash and investments in the Northwest Project Pool totaled \$5.3 million. Restricted cash and investments in the Northwest Midfield Project Pool, and the Airport Construction in Progress Projects Pool totaled \$48.7 million and \$12.1 million, respectively. Restricted cash and investments in the Airport 2001 Completion Bonds Pool and the Airport Energy Conservation Improvements Pool totaled \$5.9 million and \$4.4 million, respectively. The restricted assets pertaining to the new Airport Hotel are included in the General and the Bond Reserve Pools.

The County's investment policies are governed by State statutes. General County funds must be deposited in government-insured accounts in banks or thrifts and may not be deposited in financial institutions located in states other than Michigan. Permissible investments include obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings, and repurchase agreements. The types of investments, investment terms, and the financial institutions used for investment purposes are determined based upon the County's needs. The County Treasurer periodically assesses the financial strength of the services provided by these financial institutions to help ensure that integrity of principal is maintained.

In accordance with the County's investment policy, the County invests in mortgage-backed securities. These securities are reported at fair value in the Statement of Net Assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities decline. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The County invests in mortgage-backed securities to diversify the portfolio and to increase the return, while minimizing the extent of risk.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(4) Cash and Investments, Continued

The Wayne County Employees' Retirement System's investments, which are under the control of the Wayne County Retirement Board, are subject to a number of restrictions as to type, quality, and concentration of investment, including limiting common stock to 60 percent (at cost) of the portfolio. Investments in government-insured and other mortgages include mortgage-backed securities and conventional and construction mortgages collateralized by real property. Evaluations of real property are performed by outside consultants. Common stock and corporate bonds are limited to publicly traded companies recommended by several investment advisors.

Component Units

As of September 30, 2002, cash and investments of the component units, excluding the Airport Authority, in the amount of \$17.7 million were maintained in the County's General Pool. The carrying amount of deposits for the Airport Authority and the Authority Separate Trusts maintained in the County's General Pool was \$35.8 million at September 30, 2002. No pooled monies are directly attributable to a specific bank account or investment.

(5) Restricted Assets

In accordance with the terms of bond ordinances and for other purposes, certain sewage disposal systems and the Airport Authority are required to restrict assets for various purposes. Net assets relating to certain of the restricted assets have been restricted.

Restricted assets on the government-wide Statement of Net Assets, totaling \$734.2 million, represent those amounts that are pledged toward the payment of outstanding bonds and notes.

A summary of the restricted assets of the Sewage Disposal Systems and the Airport Authority at September 30, 2002, follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(5) Restricted Assets, Continued

	<u>Sewage Disposal Systems</u>	<u>Airport Authority</u>	<u>Total</u>
Operations and maintenance:			
Equity in pooled cash and investments	\$ -	12,346,823	\$ 12,346,823
Other cash and investments	-	12,741,991	12,741,991
Accounts receivable	-	131,807	131,807
	-	25,220,621	25,220,621
Replacements and improvements:			
Equity in pooled cash and investments	10,397,670	2,521,465	12,919,135
Other cash and investments	-	-	-
Accounts receivable	323,400	-	323,400
	10,721,070	2,521,465	13,242,535
Construction:			
Equity in pooled cash and investments	(5,974,588)	145,769,464	139,794,876
Other cash and investments	1,649,831	21,631,917	23,281,748
Accounts receivable	394,298	24,040	418,338
	(3,930,459)	167,425,421	163,494,962
Bond and interest redemption:			
Equity in pooled cash and investments	35,873,156	64,404,385	100,277,541
Other cash and investments	-	140,953,645	140,953,645
Accounts receivable	15,934,490	3,028,192	18,962,682
	51,807,646	208,386,222	260,193,868
Bond principal due from municipalities	243,607,303	-	243,607,303
Passenger facilities charges:			
Equity in pooled cash and investments	-	21,759,749	21,759,749
Accounts receivable	-	6,642,075	6,642,075
	-	28,401,824	28,401,824
Total	\$ 302,205,560	431,955,553	\$ 734,161,113

Bond principal due from municipalities are recorded upon the issuance of debt for construction of sewage facilities and systems. Such principal will be repaid by the benefited local communities in accordance with the debt service requirements of the County.

(6) Major Customer -- Airport Authority Component Unit

Northwest Airlines, Inc. (Northwest) accounted for approximately 38 percent of total Detroit Metropolitan Wayne County Airport (Airport) operating revenues for the year ended September 30, 2002, including approximately 63 percent of airport landing and related fees, and approximately 59 percent of rental and expense recoveries from tenants during fiscal year 2002. Approximately 67 percent of total fiscal year 2002 Airport enplanements are attributable to Northwest's operations. In the event Northwest discontinued its Airport operations, there are no assurances that another airline would replace its hub activities.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(6) Major Customer – Airport Authority Component Unit, Continued

Existing operating agreements with all signatory airlines serving the Airport provide reasonable assurance that all remaining airlines would continue to pay the net operating costs and debt service requirements of the Airport. The Airport had approximately \$6.5 million in net receivables from Northwest at September 30, 2002.

(7) Long-term Receivables

In 1984, the County, through the EDC, entered into an agreement for the sale and leaseback of the Wayne County Building with the Old Wayne County Building Limited Partnership. The terms of the capital lease provide for the refurbishment and restoration of the building in return for a note for \$5.3 million, at 9% per annum. The lease requires minimum semi-annual payments of \$500,000. The amount outstanding at September 30, 2002 was \$23,759,036 (Note 11).

In May 1999, the County through the Equipment Leasing Fund (ELF) acquired and leased back land for the Pinnacle Aeropark Project to the County's JEDD 21st Century Fund. The lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payment as of the inception date. The lease requires minimum semi-annual payments of \$1,285,767 from the County's JEDD 21st Century Fund. The amount outstanding at September 30, 2002 was \$34,058,833 (Note 11).

In September 2002, the County, through the ELF Fund, acquired and leased back all Golf Course Fund capital assets. This lease agreement qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments as of the inception date. The lease requires minimum semi-annual payments in the amount of \$727,550. The amount outstanding at September 30, 2002 was \$14,059,654 (Note 11).

In September 2000 and 2001, the County through the ELF Fund acquired and leased back various items of equipment to the Circuit Court, under two five-year lease agreements with a total cost of \$4.6 and \$1.7 million respectively. These agreements qualified as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments as of the inception date. The required minimum monthly lease payments amount to \$89,213 and \$33,641, respectively. The amount outstanding at September 30, 2002 was \$4,804,476 (Note 11).

In June 2001, the County received federal financial assistance from the Fannie Mae Corporation, a pass through to the Housing and Community Development Corporation (HCDC), a Michigan non-profit corporation, for the purpose of acquiring, managing, maintaining, renovating, demolishing, marketing and selling blighted properties located primarily in Highland Park, Michigan. This receivable is payable in annual installments of \$750,000, \$1,000,000 and \$1,000,000, due on June 1 of 2003, 2004 and 2005, respectively. Interest accrues quarterly based on a floating rate. The amount outstanding from HCDC at September 30, 2002 was \$2,431,000.

Long-term receivables relate to federal and State of Michigan agreements on various Roads Fund Projects. The amount outstanding at September 30, 2002 was \$7,424,569.

(8) Capital Assets

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the governmental capital assets.

Capital assets activity for the year ended September 30, 2002 was as follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
Capital assets not depreciated:				
Land	\$ 525,958,677	19,819,132	-	\$ 545,777,809
Construction in progress	-	1,573,968	-	1,573,968
Total capital assets not depreciated	<u>525,958,677</u>	<u>21,393,100</u>	-	<u>547,351,777</u>
Capital assets, depreciated				
Land improvements	12,702,991	-	-	12,702,991
Buildings and improvements	301,756,143	9,896,316	190,059	311,462,399
Machinery, equipment and vehicles	104,309,544	12,068,421	2,305,451	114,072,515
Infrastructure	1,367,975,201	-	-	1,367,975,201
Total capital assets depreciated	<u>1,786,743,879</u>	<u>21,964,737</u>	<u>2,495,510</u>	<u>1,806,213,106</u>
Less accumulated depreciation for:				
Land improvements	6,092,084	1,038,717	-	7,130,801
Buildings and improvements	126,201,089	11,624,359	-	137,825,448
Machinery, equipment and vehicles	63,767,732	13,880,393	263,867	77,384,259
Infrastructure	717,306,773	43,649,812	-	760,956,585
Total accumulated depreciation	<u>913,367,678</u>	<u>70,193,281</u>	<u>263,867</u>	<u>983,297,093</u>
Total capital assets depreciated, net	<u>873,376,200</u>	<u>(48,228,544)</u>	<u>2,231,643</u>	<u>822,916,013</u>
Governmental activities capital assets, net	<u>\$ 1,399,334,877</u>	<u>(26,835,444)</u>	<u>2,231,643</u>	<u>\$ 1,370,267,790</u>
<i>Business-type activities:</i>				
Downriver Sewage Disposal System:				
Capital assets not depreciated:				
Land	2,426,717	-	-	2,426,717
Construction in progress	217,038,254	8,401,513	216,377,458	9,062,309
Total capital assets not depreciated	<u>219,464,971</u>	<u>8,401,513</u>	<u>216,377,458</u>	<u>11,489,026</u>
Capital assets, depreciated				
Land improvements	150,033	-	-	150,033
Buildings and improvements	18,831,325	-	-	18,831,325
Machinery, equipment and vehicles	-	148,359	13,701	134,658
Infrastructure (Sewage disposal systems)	121,841,075	216,553,635	-	338,394,709
Total capital assets, depreciated	<u>140,822,433</u>	<u>216,701,993</u>	<u>13,701</u>	<u>357,510,725</u>
Less accumulated depreciation for:				
Land improvements	135,221	847	-	136,068
Buildings and improvements	15,479,841	488,334	994,663	14,973,512
Machinery, equipment and vehicles	654,124	7,905	534,543	127,486
Infrastructure (Sewage disposal systems)	35,573,570	7,727,118	-	43,300,688
Total accumulated depreciation	<u>51,842,756</u>	<u>8,224,204</u>	<u>1,529,206</u>	<u>58,537,753</u>
Total capital assets, depreciated, net	<u>88,979,677</u>	<u>208,477,789</u>	<u>(1,515,505)</u>	<u>298,972,972</u>
Downriver Sewage Disposal System capital assets, net	<u>\$ 308,444,648</u>	<u>216,879,302</u>	<u>214,861,953</u>	<u>\$ 310,461,998</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Primary Government			Ending Balance
	Adjusted Beginning Balance	Increases	Decreases	
Rouge Valley Sewage Disposal System				
Capital assets not depreciated:				
Land	\$ 1,448,847	-	-	\$ 1,448,847
Construction in progress	7,773,356	14,347	7,787,703	-
Total capital assets not depreciated	9,222,203	14,347	7,787,703	1,448,847
Capital assets, depreciated				
Land improvements	-	-	-	-
Buildings and improvements	9,019,540	-	-	9,019,540
Machinery, equipment and vehicles	-	-	-	-
Infrastructure (Sewage disposal systems)	107,866,035	8,254,753	-	116,120,788
Total capital assets, depreciated	116,885,575	8,254,753	-	125,140,328
Less accumulated depreciation for:				
Land improvements	-	-	-	-
Buildings and improvements	3,511,711	266,870	-	3,778,581
Machinery, equipment and vehicles	-	-	-	-
Infrastructure (Sewage disposal systems)	26,373,118	1,486,020	-	27,859,139
Total accumulated depreciation	29,884,829	1,752,890	-	31,637,720
Total capital assets, depreciated, net	87,000,746	6,501,863	-	93,502,608
Rouge Valley Sewage Disposal System capital assets, net	\$ 88,435,245	6,516,210	7,787,703	\$ 94,951,455

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Primary Government			Ending Balance
	Adjusted Beginning Balance	Increases	Decreases	
CSO Basins Sewage Disposal System				
Capital assets not depreciated:				
Land	\$ -	-	-	\$ -
Construction in progress	<u>43,659</u>	-	<u>43,659</u>	-
Total capital assets not depreciated	<u>43,659</u>	-	<u>43,659</u>	-
Capital assets, depreciated				
Land improvements	-	-	-	-
Buildings and improvements	79,906,482	3,435,021	-	83,341,503
Machinery, equipment and vehicles	-	7,830	7,830	-
Infrastructure (Sewage disposal systems)	<u>3,363,652</u>	-	-	<u>3,363,652</u>
Total capital assets, depreciated	<u>83,270,135</u>	<u>3,442,851</u>	<u>7,830</u>	<u>86,705,155</u>
Less accumulated depreciation for:				
Land improvements	-	-	-	-
Buildings and improvements	7,810,207	3,333,660	-	11,143,866
Machinery, equipment and vehicles	897	-	897	-
Infrastructure (Sewage disposal systems)	<u>-</u>	<u>67,273</u>	-	<u>67,273</u>
Total accumulated depreciation	<u>7,811,104</u>	<u>3,400,933</u>	<u>897</u>	<u>11,211,139</u>
Total capital assets, depreciated, net	<u>75,459,031</u>	<u>41,918</u>	<u>6,933</u>	<u>75,494,016</u>
CSO Basins Sewage Disposal System capital assets, net	<u>\$ 75,459,031</u>	<u>41,918</u>	<u>50,592</u>	<u>\$ 75,494,016</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Primary Government			Ending Balance
	Adjusted Beginning Balance	Increases	Decreases	
<i>Non-major business-type activities:</i>				
Capital assets not depreciated:				
Land	\$ 1,012,645	-	-	\$ 1,012,645
Construction in progress	155,467	-	-	155,467
Total capital assets not depreciated	<u>1,168,112</u>	-	-	<u>1,168,112</u>
Capital assets, depreciated				
Land improvements	-	-	-	-
Buildings and improvements	9,960,576	-	-	9,960,575
Machinery, equipment and vehicles	-	193,376	-	193,376
Infrastructure (Sewage disposal systems)	1,052,873	-	-	1,052,873
Total capital assets, depreciated	<u>11,013,449</u>	<u>193,376</u>	-	<u>11,206,824</u>
Less accumulated depreciation for:				
Land improvements	-	-	-	-
Buildings and improvements	3,999,085	313,781	-	4,312,866
Machinery, equipment and vehicles	-	16,840	-	16,840
Infrastructure (Sewage disposal systems)	290,176	13,161	-	303,337
Total accumulated depreciation	<u>4,289,261</u>	<u>343,782</u>	-	<u>4,633,043</u>
Total capital assets, depreciated, net	<u>6,724,187</u>	<u>(150,406)</u>	-	<u>6,573,781</u>
Non-major business-type activity capital assets, net	<u>7,892,299</u>	<u>(150,406)</u>	-	<u>7,741,893</u>
Business-type activity capital assets, net	<u>\$ 480,231,223</u>	<u>223,287,025</u>	<u>214,868,886</u>	<u>\$ 488,649,362</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Legislative	\$ 6,359
Judicial	1,701,084
General government	10,894,099
Public safety	5,611,219
Highways, streets and bridges	49,633,175
Health and welfare	782,729
Recreation and cultural	1,564,616
Total depreciation expense - governmental activities	<u>\$ 70,193,281</u>
Business-type activities:	
Downriver Sewage	8,224,204
Rouge Valley	1,752,890
CSO Basins	3,400,933
Non-major business-type activities	343,782
Total depreciation expense - business-type activities	<u>\$ 13,721,809</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

Construction in progress involves various Sewage Disposal System improvements in the approximate amount of \$9.1 million at September 30, 2002. The costs expected to be incurred to complete these projects are estimated at \$3.3 million. These projects are expected to be funded by future contributions from federal grants, participating local government units, and assets restricted for improvements.

Discretely presented component units

Activity for the component units for the year ended September 30, 2002 was as follows:

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Airport Authority:				
Capital assets not depreciated:				
Land	\$ 165,614,545	4,421,590	-	\$ 170,036,135
Construction in progress	1,186,733,425	93,029,546	1,161,074,656	118,688,315
Total capital assets not depreciated	<u>1,352,347,970</u>	<u>97,451,136</u>	<u>1,161,074,656</u>	<u>288,724,450</u>
Capital assets, depreciated:				
Land improvements	-	-	-	-
Buildings and improvements	299,465,712	987,260,320	-	1,286,726,032
Airport paving	195,663,561	427,012,915	-	622,676,476
Airport system	276,798,033	18,739,046	-	295,537,079
Machinery, equipment and vehicles	41,729,450	2,107,254	-	43,836,704
Infrastructure	182,561,031	-	-	182,561,031
Total capital assets depreciated	<u>996,217,787</u>	<u>1,435,119,535</u>	<u>-</u>	<u>2,431,337,322</u>
Less accumulated depreciation for:				
Land improvements	-	-	-	-
Buildings and improvements	143,372,868	29,171,139	-	172,544,007
Airport paving	240,429,579	14,376,147	-	254,805,726
Airport system	134,465,076	11,239,959	-	145,705,035
Machinery, equipment and vehicles	25,742,925	3,934,706	-	29,677,631
Infrastructure	15,519,299	3,566,842	-	19,086,141
Total accumulated depreciation	<u>559,529,747</u>	<u>62,288,793</u>	<u>-</u>	<u>621,818,540</u>
Total capital assets depreciated, net	<u>436,688,040</u>	<u>1,372,830,742</u>	<u>-</u>	<u>1,809,518,782</u>
Total Airport Authority Capital assets, net	<u>\$ 1,789,036,010</u>	<u>1,470,281,878</u>	<u>1,161,074,656</u>	<u>\$ 2,098,243,232</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Circuit Court:				
Capital assets not depreciated:				
Land	\$ 7,500,662	-	-	\$ 7,500,662
Total capital assets not depreciated	<u>7,500,662</u>	<u>-</u>	<u>-</u>	<u>7,500,662</u>
Capital assets, depreciated				
Land improvements	188,400	-	-	188,400
Buildings and improvements	28,589,475	-	-	28,589,475
Machinery, equipment and vehicles	<u>9,040,008</u>	<u>56,101</u>	-	<u>9,096,109</u>
Total capital assets, depreciated	<u>37,817,883</u>	<u>56,101</u>	<u>-</u>	<u>37,873,984</u>
Less accumulated depreciation for:				
Land improvements	136,805	9,420	-	146,225
Buildings and improvements	24,606,678	442,407	-	25,049,083
Machinery, equipment and vehicles	<u>3,123,183</u>	<u>1,707,933</u>	-	<u>4,831,116</u>
Total accumulated depreciation	<u>27,866,666</u>	<u>2,159,760</u>	<u>-</u>	<u>30,026,424</u>
Total capital assets, depreciated, net	<u>9,951,217</u>	<u>(2,103,659)</u>	<u>-</u>	<u>7,847,560</u>
Circuit Court capital assets, net	<u>\$ 17,451,879</u>	<u>(2,103,659)</u>	<u>-</u>	<u>\$ 15,348,222</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Non-major component units:				
Capital assets not depreciated:				
Land	\$ 78,786,811	-	-	\$ 78,786,811
Construction in progress	191,638,951	-	191,638,951	-
Total capital assets not depreciated	<u>270,425,762</u>	<u>-</u>	<u>191,638,951</u>	<u>78,786,811</u>
Capital assets, depreciated				
Land improvements	13,852,326	-	-	13,852,326
Buildings and improvements	246,912,728	435,122,245	-	682,034,973
Machinery, equipment and vehicles	23,867,288	-	-	23,867,288
Total capital assets, depreciated	<u>284,632,342</u>	<u>435,122,245</u>	<u>-</u>	<u>719,754,587</u>
Less accumulated depreciation for:				
Land improvements	536,583	525,169	-	1,061,752
Buildings and improvements	25,110,511	20,930,602	-	46,041,113
Machinery, equipment and vehicles	-	1,549,490	-	1,549,490
Total accumulated depreciation	<u>25,647,094</u>	<u>23,005,261</u>	<u>-</u>	<u>48,652,355</u>
Total capital assets, depreciated, net	<u>258,985,248</u>	<u>412,116,984</u>	<u>-</u>	<u>671,102,232</u>
Non-major component units capital assets, net	<u>529,411,009</u>	<u>412,116,984</u>	<u>191,638,951</u>	<u>749,889,042</u>
Discretely presented component units capital assets, net	<u>\$ 2,361,641,825</u>	<u>1,884,229,909</u>	<u>1,352,713,607</u>	<u>\$ 2,863,480,496</u>

Depreciation expense was charged in component unit as follows:

Airport Authority	\$ 62,288,793
Circuit Court	2,159,760
Non-major component units	<u>23,005,261</u>
Total depreciation expense - component units	<u>\$ 87,453,814</u>

For the year ended September 30, 2002, the amount of interest capitalized for discretely presented component units was \$23.4 million.

The Airports' construction in progress involves various airport paving and other system improvements in the approximate amount of \$46.3 million and \$3.2 million, respectively, at September 30, 2002. The estimated costs to complete this capital improvement program total \$281 million at September 30, 2002, which will be funded by previously issued and anticipated debt, federal grants, and passenger facilities charges. Unexpended commitments on construction and professional service contracts in connection with this program totaled \$114 million at September 30, 2002. Airport Hotel construction in progress involves various construction and professional service costs in the approximate amount of \$69.2 million. The estimated costs to complete this project total \$21.6 million at September 30, 2002, which will be funded by previously issued debt.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(8) Capital Assets, Continued

Fiduciary Funds

Activity for the Fiduciary funds for the year ended September 30, 2003 was as follows:

	Adjusted Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, depreciated				
Machinery, equipment and vehicles	\$ 3,696,205	127,805	-	\$ 3,824,010
Total capital assets depreciated	<u>3,696,205</u>	<u>127,805</u>	<u>-</u>	<u>3,824,010</u>
Less accumulated depreciation for:				
Machinery, equipment and vehicles	3,325,374	375,914	-	3,701,288
Total accumulated depreciation	<u>3,325,374</u>	<u>375,914</u>	<u>-</u>	<u>3,701,288</u>
Total capital assets depreciated, net	<u>370,831</u>	<u>(248,109)</u>	<u>-</u>	<u>122,722</u>
Capital assets, net	<u>\$ 370,831</u>	<u>(248,109)</u>	<u>-</u>	<u>\$ 122,722</u>

(9) Property Taxes

County Tax Levy

The County property tax is levied each December 1 (lien date). Pursuant to the County Charter, the County is authorized to levy an ad valorem property tax against the State Equalized Valuation (SEV), based on property values determined by local assessors in the several townships and cities as of the preceding December 31. By statute, these assessment values are calculated at 50 percent of true cash value. Real and personal property in Wayne County for the December 1, 2001 (fiscal year 2002) levy was equalized at \$49 billion.

In 1994, Michigan voters approved Proposal A, which limits future annual increases in assessed values to the lesser of 5 percent or the rate of inflation, with assessed value reverting to 50 percent of true cash value when the property is sold. Beginning in 1995, taxable property had two valuations: SEV and Taxable Value. Real property taxes are levied on the Taxable Value. Generally, Taxable Value of real property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the inflation rate or 5 percent, plus additions, or (b) the property's current SEV. Therefore, Taxable Value of a property may be different from the same property's SEV. As of December 1, 2001 (fiscal year 2002), the Taxable Value of property in Wayne County was \$39.7 billion. Property taxes are receivable on the levy dates and become delinquent on March 1 of the following year.

By statute, the County's ad valorem property tax may not exceed 10.0 mills, plus any additional millage approved by the voters of the County.

In 1988, the Wayne County electorate voted one additional mill (jail millage) to be levied through December 1, 1997, to acquire, construct, and/or operate jail, misdemeanor, juvenile incarceration or detention facilities; and for adult-penalty options such as work release, home detention, and community restitution, with at least one-tenth of a mill set aside to acquire, build, and operate a juvenile offender work/training institution. The unexpended portion of this one-tenth millage is included in the Youth Services Fund's fund balance. In 1998, the Wayne County electorate voted to continue the one additional mill (jail millage) for the years 1998 through 2001.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(9) **Property Taxes, Continued**

In 2000, the voters of Wayne County approved a second additional mill to be levied through December 1, 2005, for general operating purposes.

In 2000, the voters of Wayne County approved an additional quarter-mill to be levied through December 1, 2010, to fund major capital improvements in the Wayne County Park System and several other local parks.

The Headlee Amendment (Michigan Constitution, Article IX) provides that the total County ad valorem property tax levy is subject to reduction in any year in which the increase in assessed values on existing properties exceeds the Consumer Price Index. As a result of the Headlee Amendment, the December 1, 1999 tax rates, per \$1,000 of State Equalized Assessed Valuation, were:

Charter (Statutory)	5.68
Public Safety (Jail millage)	.94
Extra Voted (Additional general)	.96
County Parks	.25
Soldiers Relief (Veteran's relief)	<u>.02</u>
Total	<u>7.85</u>

Delinquent Tax Revolving Fund

The Wayne County Treasurer (Treasurer) is required by the General Property Tax Law, (Act 206 of 1893) as amended, to collect delinquent real property taxes levied by all local units of government within the county. Public Act 123 of 1999 (the Act) amended the General Property Tax Law to subject tax delinquent property to forfeiture, foreclosure, and sale over a three-year period. All property returned for delinquent taxes, and upon which taxes, interest, penalties, and fees remain unpaid after the property is returned as delinquent to the County Treasurer, is subject to forfeiture, foreclosure, and sale for the enforcement and collection of the delinquent taxes. The Act reformed the tax reversion process by decreasing the process to three years and amending the May Tax Sale process. The Act also established the primary responsibility for administration with the Treasurer.

The General Property Tax Law authorizes the Treasurer to establish a Delinquent Tax Revolving Fund, an internal service fund, to buy any or all delinquent real property taxes and special assessments owed to the County and local units of government in the County. In addition, under the Act, the Treasurer pays the local governmental unit's Treasurer in full for delinquent real property taxes owed according to the delinquent tax roll "returned" to the Treasurer. Taxes eligible for payment under this section include all delinquent taxes, except taxes on personal property, due and payable to the taxing units in the County, except those units, which collect their own delinquent taxes. The County Treasurer shall pay from the fund any or all delinquent taxes, which are due and payable to the County and any school district, intermediate school district, community college district, city, township, special assessment district, or any other political unit. The County retains all delinquent taxes, interest and penalties collected to offset its tax collection costs.

The assets of the Delinquent Tax Revolving Fund, including delinquent property taxes receivable amounting to \$66.5 million at September 30, 2002, are pledged as collateral for payment of the general obligation limited tax notes (refer to Footnote 11). Proceeds of the notes are used to liquidate amounts due to the County's General Fund, other County funds, the communities, and other governmental agencies for the purchase of the delinquent real property taxes receivable. Debt service on the notes is funded by subsequent collections on delinquent taxes, plus interest and collection fees thereon, and by investment earnings.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(9) Property Taxes, Continued

In July 2002, the County issued \$67.5 million of General Obligation Limited Tax Notes, Series 2002, for the purpose of financing the purchase of 2001 real property taxes declared delinquent on March 1, 2002. Amounts remaining from the 1999 and prior Delinquent Tax Funds at September 30, 2002 are no longer required for debt service or administration. A portion of the excess earnings (surpluses) relating to these funds are periodically transferred to the County's General Fund. During 2002, such transfers amounted to \$19 million to the General Fund and \$5 million to the Capital Projects Fund.

In connection with the purchase of 2002 delinquent property taxes, the County intends to issue General Obligation Limited Tax Notes, Series 2003, in July 2003, in an amount not to exceed \$70 million.

Real property taxes not collected within three years after the sale of the related General Obligation Limited Tax Notes are charged back to the appropriate taxing authorities (including the County's General Fund). During 2002, approximately \$2.9 million of delinquent taxes receivable, net of related tax sales auction proceeds, were reflected as a reduction of property tax revenues in the County's General Fund. At September 30, 2002, three years of the County's delinquent real property taxes receivable are recorded in the Delinquent Tax Revolving Fund.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances

Interfund Transfers

Interfund transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service funds as debt service payments become due, and 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

Interfund transfers for the year ended September 30, 2002 consisted of the following:

	General Fund	Roads	Non-major Governmental Funds	Internal Service Funds	Total Transfers In
General Fund	\$ -	-	17,270,241	19,000,000	\$ 36,270,241
Mental Health	17,733,714	-	-	-	17,733,714
Health	8,508,892	-	-	-	8,508,892
Juvenile Justice and Abuse/Neglect	86,485,015	-	2,964,809	-	89,449,824
Non-major Governmental Funds	<u>11,004,242</u>	<u>5,911,365</u>	<u>4,139,634</u>	<u>5,000,000</u>	<u>26,055,241</u>
Total Transfers Out	<u>\$ 123,731,863</u>	<u>5,911,365</u>	<u>24,374,684</u>	<u>24,000,000</u>	<u>\$ 178,017,912</u>

In the year ended September 30, 2002, transfers were made from the Budget Stabilization Fund of \$8,062,600 and from the Other Capital Projects Fund of \$3,983,000 to the General Fund for operations. The Pinnacle Aeropark was moved to a separate fund for the year ended September 30, 2002. The fund balance totaling \$3,993,853 was moved from JEDD 21st Century Fund to the new Pinnacle Aeropark Fund. The fund balance in the Drug Enforcement Fund related to the Metropolitan Airport Fund was transferred to the Metropolitan Airport Fund during the year ended September 30, 2002.

Interfund Balances

The interfund balances resulted from the time lag between the dates 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting systems, 3) payment between funds are made and 4) overdrafts by individual funds of its share of pooled cash.

Interfund balances at September 30, 2002 consisted of the following:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances, Continued

		Due from Other Funds						
		General Fund	Roads	Mental Health	Health	Juvenile Justice and Abuse/Neglect	Non-major Governmental Funds	Downriver Sewage Disposal System
Due to Other Funds	General Fund	\$ -	-	-	4,646,777	33,242,844	16,479,794	\$ 299,687
	Roads	18,789,594	-	-	-	-	-	-
	Mental Health	22,180,234	-	-	-	-	-	-
	Juvenile Justice and Abuse/Neglect	-	-	-	-	-	3,262,903	-
	Non-major Governmental Funds	10,437,367	30,914	-	-	-	7,126,393	-
	Downriver Sewage Disposal System	-	-	-	-	-	-	-
	Rouge Valley Sewage Disposal System	4,691,515	-	-	-	-	-	-
	Non-major Enterprise Funds	-	-	-	-	-	74,004	-
	Internal Service Funds	29,413,507	514,153	76,909	139,100	141,988	6,105,653	59,368
	Fiduciary Funds	1,729,793	153,339	18,876	34,350	38,667	63,677	15,952
Total Due to Other Funds	\$ 87,242,010	698,405	95,785	4,820,227	33,423,499	33,112,424	\$ 375,007	

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances, Continued

		Due from Other Funds					
		Rouge Valley Sewage Disposal System	CSO Basins Sewage Disposal System	Non-major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due from Other Funds
Due to Other Funds	General Fund	\$ -	3,067,653	1,222,736	22,959,815	4,381,736	\$ 86,301,042
	Roads	-	-	-	387,516	-	19,177,110
	Mental Health	-	-	-	-	-	22,180,234
	Juvenile Justice and Abuse/Neglect	-	-	-	-	-	3,262,903
	Non-major Governmental Funds	-	-	-	5,395	280,789	17,880,858
	Downriver Sewage Disposal System	64,231	-	-	-	-	64,231
	Rouge Valley Sewage Disposal System	-	-	-	31	-	4,691,546
	Non-major Enterprise Funds	-	-	-	50,660	-	124,664
	Internal Service Funds	-	196,828	-	367,377	14,710	37,029,592
	Fiduciary Funds	-	-	-	92,041	2,352,600	4,499,295
	Total Due to Other Funds	\$ 64,231	3,264,481	1,222,736	23,862,835	7,029,835	\$ 195,211,475

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances, Continued

		Due from Component Units			
		Airport Authority	Circuit Court	Non-major Component Units	Total Due to Primary Government
Due to Primary Government	Governmental Activities:				
	General Fund	\$ 350,690	21,239,640	280,239	\$ 21,870,569
	Roads	2,789,689	-	-	2,789,689
	Non-major Governmental Funds	97,200	555,500	135,266	787,966
	Internal Service Funds	540,863	342,972	74,159	957,994
	Total Due from Component Units Governmental Activities	3,778,442	22,138,112	489,664	26,406,218
	Business-type Activities - Non-major				
	Enterprise Funds	-	13,228	1,764	14,992
	Fiduciary Funds	154,586	222,572	13,900	391,058
	Total Due from Component Units	<u>\$ 3,933,030</u>	<u>22,373,912</u>	<u>505,328</u>	<u>\$ 26,812,270</u>

		Due from Primary Government			
		Health	Non-major Governmental Funds	Rouge Valley Sewage Disposal System	Total Due to Component Units
Due to Component Units	Airport Authority	\$ -	1,583,487	-	\$ 1,583,487
	Circuit Court	100,200	17,504	-	117,704
	Non-major Component Units	-	-	316,223	316,223
	Total Due from Primary Government	<u>\$ 100,200</u>	<u>1,600,991</u>	<u>316,223</u>	<u>\$ 2,017,414</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances, Continued

Advances To/From Other Funds

Advances represent non-current loans involving the transfer of cash between funds within the primary government, usually to provide capital to the ELF, where no goods were sold or services rendered, with the expectation of repayment from future revenues as funds are available. Loans between funds are treated as balance sheet transactions. The borrowing fund reports a liability and an increase in cash, and the lending fund reports a receivable and a decrease in cash. Interfund interest expense is charged on these loans based on a rate, which is determined by net earnings on investment income earned, by the County's pooled cash and investments. This rate is then allocated to the various funds based on each fund's average cash and investment balance, monthly.

Non-current balances arising in connection with interfund loans are reported as advances. Advances to Other Funds is an asset account used to record non-current portions of loans from one fund to another fund within the same reporting entity. Similarly, Advances from Other Funds is a liability account used to record non-current portions of debt owed by one fund to another fund within the same reporting entity. It should be noted that Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate that funds are not available for appropriation and are not expendable financial resources.

Advances as of September 30, 2002 are as follows:

	Advances to Other Funds	Advances from Other Funds
Internal Service Funds:		
Advance to Equipment Lease Financing Fund	50,130,765	
Equipment Lease Financing Loan Fund:		
Advance from Delinquent Tax Revolving Fund		14,130,765
Advance from Long-Term Disability Fund		4,000,000
Advance from General Health Fund		7,000,000
Advance from Worker's Compensation Fund		24,000,000
Advance from General Liability Fund		1,000,000
Total Advances	\$ 50,130,765	\$ 50,130,765

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(10) Interfund Transfers, Balances, and Advances, Continued

Disaggregation of significant receivable and payable balances from other governmental units at September 30, 2002, are as follows:

	Due From			
	State of Michigan	U.S. Federal Government	Local Governmentals	
General Fund	\$ 24,482,187	433,891	4,028,613	\$ 28,944,691
Roads	24,595,098	-	2,079,523	26,674,621
Mental Health	17,953,699	-	-	17,953,699
Health	1,131,912	116,827	178,878	1,427,617
Juvenile Justice and Abuse/Neglect	32,071,828	-	-	32,071,828
Non-major Governmental Funds	9,672,358	2,888,650	652,798	13,213,806
Internal Service Funds	-	13,886	4,637	18,523
Total Governmental Activities	\$ 109,907,082	3,453,254	6,944,449	\$ 120,304,785

	Due To		
	State of Michigan	Local Governmentals	Total Governmental Activities
General Fund	\$ 6,952,964	-	\$ 6,952,964
Roads	6,297,824	11,092,568	17,390,392
Mental Health	28,174,660	-	28,174,660
Total Governmental Activities	\$ 41,425,448	11,092,568	\$ 52,518,016

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations

Short-term Debt – General Obligation Limited Tax Notes

The County issued a \$57,500,000 General Obligation Limited Tax Note, Series 2001-I, dated July 30, 2001, maturing March 1, 2002. The note was issued in anticipation of collection of delinquent real property taxes, interest collection fees thereon, and investment earnings. As of September 30, 2002, the ending balance of the debt was zero. (See Footnote 9 – Property Tax, for additional discussion.)

Short-term debt activity for the year ended September 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Series 2001, due 2002	46,800,000	-	(46,800,000)	-
Total	\$ 46,800,000	-	(46,800,000)	\$ -

Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2002 are summarized as follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 143,780,808	-	(12,481,992)	131,298,816	\$ 12,214,120
Revenue bonds	91,015,279	-	(6,172,279)	84,843,000	5,447,000
Notes payable	49,550,000	67,450,000	(63,930,724)	53,069,276	45,619,276
Total bonds and notes payable	284,346,087	67,450,000	(82,584,995)	269,211,092	63,280,396
Capital leases:					
Building	20,302,534	-	(2,002,554)	18,299,980	1,505,103
Pinnacle Aeropark	29,525,104	4,533,730	-	34,058,834	1,228,872
Parks/Golf Course	-	14,059,654	-	14,059,654	290,295
Total Capital leases	49,827,638	18,593,384	(2,002,554)	66,418,468	3,024,270
Other liabilities:					
Claims, litigation and assessments	11,445,350	6,000,000	(6,183,600)	11,261,750	3,800,000
Compensated absences	25,755,197	26,787,626	(25,755,197)	26,787,626	8,665,796
Total other liabilities	37,200,547	32,787,626	(31,938,797)	38,049,376	12,465,796
Total Governmental activities	\$ 371,374,272	118,831,010	(116,526,346)	373,678,936	\$ 78,770,462
Business-type Activities:					
Downriver Sewage Disposal System:					
General obligation bonds	230,241,284	1,034,904	(11,727,209)	219,548,979	11,402,950
Deferred loss on refunding	(424,255)	35,354	-	(388,901)	-
Total Downriver Sewage Disposal System	229,817,029	1,070,258	(11,727,209)	219,160,078	11,402,950
Rouge Valley Sewage Disposal System:					
General obligation bonds	5,753,069	-	(675,000)	5,078,069	725,000
CSO Basins Sewage Disposal System:					
General obligation bonds	44,043,688	-	(2,140,000)	41,903,688	2,255,000
Deferred loss on refunding	(2,204,181)	151,511	-	(2,052,670)	-
Total CSO Basins Sewage Disposal System	41,839,507	151,511	(2,140,000)	39,851,018	2,255,000
Non-major business-type activities:					
Bonds payable:					
Revenue bonds	6,370,000	-	(410,000)	5,960,000	425,000
Deferred loss on refunding	(185,757)	14,289	-	(171,468)	-
Total bonds payable	6,184,243	14,289	(410,000)	5,788,532	425,000
Total Business-type activities	\$ 283,593,848	1,236,058	(14,952,209)	269,877,697	\$ 14,807,950

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

County debt is limited to 10.0 percent (or approximately \$4.9 billion) of State Equalized Value of property in the County at September 30, 2002.

Governmental Activities

Delinquent property tax receivables (and amounts collected) are pledged as collateral for the repayment of the outstanding general obligation limited tax notes.

The County participates in the Equipment and Real Property Financing Program of Michigan Municipal Bond Authority (MMBA) to finance purchases of property and equipment on more favorable borrowing terms than might otherwise be available. The total borrowings by the County may not exceed .5 percent (or approximately \$245 million) of State Equalized Value of property in the County at September 30, 2002.

In 1988, in connection with the refinancing of certain General Fund obligations in prior years, the County issued \$103.8 million in Fiscal Stabilization Bonds to the MMBA, which concurrently issued Local Government Loan Program Revenue Bonds (Fiscal Stabilization Bonds), Series 1986A, Group 12B (Insured Wayne County Bonds).

The legislation enabling the issuance of the Fiscal Stabilization Bonds and Emergency Loan Board Notes increased the state cigarette tax to provide revenues to the County with which to fund the debt service requirements on this debt. In addition, the legislation provided for a special tax on airport parking to provide additional General Fund unrestricted revenues. The County's share of state cigarette tax collections (estimated to be \$16 million annually) is first applied to service the Fiscal Stabilization Bonds. State revenue sharing and County property tax revenues have also been pledged as collateral for the Fiscal Stabilization Bonds.

In January 1991, the MMBA refunded its Local Government Loan Program Revenue Bonds (Fiscal Stabilization Bonds). Concurrently, the terms of the related Wayne County Fiscal Stabilization Bonds held by the MMBA were modified, principally to revise the timing of the principal payments and the amount of interest, enabling the repayment of the County's Emergency Loan Board notes to be accelerated. The Emergency Loan Board Notes were repaid in 1997.

In May 1992, the Wayne County Building Authority (Authority) issued \$33.6 million in debt to finance construction of the Wayne County Medical Examiner Facility, as well as other capital projects. These bonds are payable by the Authority solely from rental payments to be made by the County and from funds relating to this issue held by the Trustee. The County's obligation to make the rental payments is a limited tax general obligation supported by the full faith and credit of the County, subject to certain limitations.

In March 1994, the Authority issued \$105.9 million in bonds with an average interest rate of 5.8 percent, of which \$97.6 million was used to advance-refund \$97.2 million of bonds, with the remaining \$8.3 million in bonds to be used for renovations and improvements on the Wayne County Youth Home and for the demolition of abandoned buildings on the Eloise Westland property. The County has pledged its full faith and credit for these bonds, subject to certain limitations.

In March 1994, the Authority issued \$3.3 million in bonds to finance assets of the Warren Valley Golf Course. The County has pledged its full faith and credit for these bonds, subject to certain limitations.

In November 1996, the Authority issued \$45.0 million in Series 1996A debt with an average interest rate of 5.8 percent to finance construction of the Wayne County Juvenile Detention Facility, as well as other capital projects. These bonds are payable by the Authority solely from the rental payments to be made by the County and from funds

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

relating to this issue held by the Trustee. The County's obligation to make the rental payments is a limited tax general obligation supported by the full faith and credit of the County, subject to certain limitations.

Michigan Transportation Fund Bonds, Series 1998, in the aggregate amount of \$31.3 million, were issued to fund a portion of the capital improvements to the County's road system. The bonds are due serially through 2012 at interest rates ranging from 4.0% to 5.25%. Bond principal and interest payments are secured by an irrevocable pledge of distributions from the Michigan Transportation Fund pursuant to the provisions of Act 51 of the Michigan Public Acts of 1951. In the event that Act 51 distributions are insufficient to repay these bonds and notes, the County has pledged its full faith and credit for repayment. These bonds are considered limited tax general obligations of the County.

Michigan Transportation Fund Bonds, Series 1999, in the aggregate amount of \$28.7 million, were issued to fund a portion of the capital improvements to the County's road system. The bonds are due serially through 2013 at interest rates ranging from 4.0% to 5.3%. Bond principal and interest payments are secured by an irrevocable pledge of distributions from the Michigan Transportation Fund pursuant to the provisions of Act 51 of the Michigan Public Acts of 1951. In the event that Act 51 distributions are insufficient to repay these bonds and notes, the County has pledged its full faith and credit for repayment. These bonds are considered limited tax general obligations of the County.

Claims, litigation, and assessments represent actions, which have been asserted and are probable of loss and estimable. The amount of probable loss has been determined through court orders, judgments, or annual estimates by the County's Corporation Counsel. Claims and assessments that are not probable of loss or are not estimable are discussed in Note 14.

Amounts accrued for unpaid vacation and sick pay represent the accumulated, vested obligation of the County at September 30, 2002, for such benefits, payable to present governmental fund employees at future dates upon employee termination, retirement, or death.

Effective December 29, 1984, the County, through its Economic Development Corporation (EDC), sold the County Building to the Old Wayne County Building Limited Partnership (the Partnership) for the purpose of restoration and leased it back in 1987 under a ten-year leasing arrangement. In 1998, the County entered into a third amendment to the building lease with the Partnership (refer to Note 7). The ten-year renewal term among other things provides for a renewal option for a second ten-year term and a purchase option at the end of the first and second renewal terms. This lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease requires minimum quarterly payments from the County of \$540,464. The rentals effectively provide for the debt service requirements of the Partnership.

As of September 30, 2002, the outstanding portion of the capital lease obligation associated with the restoration was \$18.3 million.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2002, were as follows:

<u>September 30,</u>	Wayne County Building Capital Lease <u>Obligation</u>
2003	\$ 2,161,854
2004	2,161,854
2005	2,161,854
2006	2,161,854
2007	2,161,854
2008-2012	10,809,270
2013-2017	10,809,270
2018	<u>3,377,061</u>
Total minimum lease payments	35,804,871
Less: Amount representing interest	<u>(17,504,891)</u>
Present value of minimum lease payments	<u>\$ 18,299,980</u>

In connection with the aforementioned capital lease, the County received a \$5.3 million note from the Partnership which accrues interest at a rate of 9% (see Note 7). The value of the note (currently \$23,759,036), at maturity, is anticipated to be transferred to the Partnership as a condition for the County to exercise its option to purchase the building. The note is reflected as a long-term capital lease receivable and payable in the Building and Grounds Maintenance Internal Service Fund.

In May 1999, the County authorized the expenditure of up to \$50 million for land acquisition and land development costs for the Pinnacle Aeropark Project, a state of the art business and industrial park located next to the Detroit Metropolitan Wayne County Airport. The initial acquisition of property cost approximately \$29.5 million and is being accounted for as a twelve-year capital lease. The expenditure is financed through the County's ELF Fund and the property is being leased back to the County's JEDD 21st Century Fund. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease requires minimum semi-annual payments from the County's JEDD 21st Century Fund in the amount of \$1,285,767. In connection with this capital lease, the County has recorded a long-term capital lease receivable and payable in an internal service fund.

As of September 30, 2002, the outstanding portion of the capital lease obligation associated with Pinnacle Aeropark Project was \$34.1 million.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2002, were as follows:

September 30	Pinnacle Aeropark Capital Lease Obligation
2003	\$ 2,571,534
2004	2,571,534
2005	2,571,534
2006	2,571,534
2007	2,571,534
2008-2012	12,857,670
2013-2017	12,857,670
2018-2019	10,037,453
Total minimum lease payments	48,610,463
Less: Amount representing interest	(14,551,630)
Present value of minimum lease payments	\$ 34,058,833

In June 2001, the County entered into a loan agreement with Fannie Mae, a corporation organized and existing under the laws of the United States of America, to borrow \$2.75 million for the purpose of acquiring, managing, maintaining, renovating, demolishing, marketing and selling of blighted properties located primarily in Highland Park, thereby decreasing the number of homes constituting public nuisances, all in furtherance of the County's responsibilities for providing for the health, safety, and welfare of its citizens. This promissory note is backed by the full faith and credit of the County and is payable in annual installments of \$750,000, \$1,000,000 and \$1,000,000 due on June 1st of 2003, 2004 and 2005, respectively. Interest shall accrue quarterly and shall be determined by Fannie Mae based on a floating rate, obtained by adding ninety (90) basis points to the three (3) month LIBOR, adjusted quarterly, based on such rate as published in The Wall Street Journal on the last business day of the month immediately preceding each quarter. The note payable to Fannie Mae is included in the government-wide statements.

As discussed in Note 7, the County, through the ELF Fund, acquired and lease back all Golf Course Fund capital assets. As of September 30, 2002, the outstanding portion of the capital lease associated with the Parks/Golf Course assets was \$14.1 million. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2002, were as follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

September 30	Parks/Golf Course Capital Lease Obligation
2003	\$ 727,551
2004	727,551
2005	727,550
2006	727,550
2007	727,549
2008-2012	3,637,750
2013-2017	3,637,750
2018-2022	3,637,752
2023-2027	3,637,749
2028-2032	3,637,752
Total minimum lease payment	21,826,504
Less: Amount representing interest	(7,766,850)
Present value of minimum lease payments	\$ 14,059,654

Business-Type Activities

Sewage Disposal Systems – The principal and interest payments on all the sewage disposal system bonds, other than the Wayne County Northeast Sewage Disposal System revenue bonds, are payable from contributions of the participating local governmental units as set forth in the related sewage disposal system contracts and bond ordinances. The Northeast Sewage Disposal System revenue bonds are payable from the net revenues of the sewage disposal system. The net revenues (as defined) of the sewage disposal system are pledged as collateral for the debt service requirements. In the event of default, the County has agreed to advance funds sufficient for payment of bond principal and interest. The County incurred no net bond interest costs for the year ended September 30, 2002.

In 1994, the County authorized issuance of bonds to the MMBA Revolving Loan Fund for up to \$13.0 million for the Downriver Sewage Disposal System. Through September 30, 2002, the County received \$12.6 million from the revolving loan fund for the projects supported by these bonds.

In 1995, the County authorized additional issuance of bonds to the MMBA Revolving Loan Fund for up to \$21.4 million for the Downriver Sewage Disposal System and the CSO Basins Sewage Disposal System. Through September 30, 2002, the County received \$19.9 million from the revolving loan fund. Subsequent to September 30, 2002, the County has received an additional \$1,329,443 from the revolving loan fund.

In 1995, the County authorized issuance of bonds to the MMBA Revolving Loan Fund for up to \$5.2 million for the Rouge Valley Sewage Disposal System. Through September 30, 2002, the County received \$5.2 million from the revolving loan fund.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

In 1996, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$78.8 million for the Downriver Sewage Disposal System. Through September 30, 2002, the County received \$78.0 million from the revolving loan fund.

In 1997, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$84.0 million for the Downriver Sewage Disposal System. Through September 30, 2002, the County received \$82.9 million from the revolving loan fund.

In 1998, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$31.3 million for the Downriver Sewage Disposal System. Through September 30, 2002, the County received \$31.1 million from the revolving loan fund.

In 1998, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$425,000 for the Rouge Valley Sewage Disposal System. Through September 30, 2002, the County received \$418,069 from the revolving loan fund.

In 1999, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$12.6 million for the Downriver Sewage Disposal System. An estimated \$445,000 of this amount is designated for two communities covered under the Chapter 20 Drainage District, a component unit of the County of Wayne, and is reported under the Component Unit segment of County debt. Through September 30, 2002 the County received \$12.5 million from the revolving loan fund, of which \$416,358 is directly attributable to the Chapter 20 Drainage District's bond debt.

In 2000, the County authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$5.1 million for the Downriver Sewage Disposal System. Through September 30, 2002, the County received \$4.8 million from the revolving loan fund. Subsequent to September 30, 2002 the County has received an additional \$54,658 from the revolving loan fund.

The County has pledged its full faith and credit on \$10.1 million of water and sewage bonds issued by local communities for various water and sewer construction activities. The obligations are being paid from the revenues of the various communities' water and sewage fund operations. The assets and related obligations have not been reflected within the County's basic financial statements for these activities.

In December 1995, the County authorized the issuance of bonds in an aggregate principal amount of \$16.3 million designated Wayne County Combined Sewer Overflow (City of River Rouge) Bonds, Series B. These bonds were used to finance construction of a combined sewer overflow control facility in the City of River Rouge to comply with the requirements of a federal grant and applicable National Pollutant Discharge Elimination System (NPDES) permit. The obligations are limited tax general obligations of the County of Wayne, but are payable from contractual payments to be received from the City of River Rouge.

In April 1999, the County issued \$23.1 million, Series 1999B Revenue Bonds, under the MMBA Local Government Loan Program to provide resources to advance refund \$20.3 million of existing Sewage Disposal System Debt, Series 1994D, F and G, and Chapter 21 Drainage District, a component unit, Series 1993B. The proceeds of the refunding bonds were placed into an irrevocable trust to provide for all future debt service payments on the retired bonds. As a result, the retired bonds are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. This refunding was taken solely to retire the refunded debt and reduce the total of future debt service payments. This bond issue is a limited tax general obligation of the County of Wayne, but is payable from contractual payments to be received from the communities participating

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

in the respective sewage disposal systems benefited. Should the assets in escrow not be sufficient to fund the debt service requirements, additional amounts would be required to be deposited from the respective Sewage Disposal System.

In August 1999, the County issued the Series 1999A Refunding Bonds in the amount of \$6.5 million and the Series 1999B bonds in the amount of \$15.0 million for the Downriver Sewage Disposal System, under the MMBA's Local Government Loan Program. Proceeds from the 1999A Series bonds were used to advance refund \$6.1 million of the existing Sewage Disposal System Debt, Series 1994A. Proceeds from the 1999B Series Bonds were used to finance improvements to the Downriver Sewage Disposal System.

The proceeds of the 1999A refunding bonds were placed into an irrevocable trust to provide for all future debt service payments on the retired bonds. As a result, the retired bonds are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. This refunding was taken solely to retire the refunded debt and reduce the total of future debt service payments. This bond issue is a limited tax general obligation of the County, but is payable from contractual payments to be received from the communities participating in the respective sewage disposal systems benefited. Should the assets in escrow not be sufficient to fund the debt service requirements, additional amounts would be required to be deposited from the respective Sewage Disposal System.

Other

The annual requirements to pay principal and interest on the debt as reflected above (excluding claims, litigation and assessments, worker's compensation, capital lease obligations, and compensated absences) at September 30, 2002, are summarized as follows:

Year Ended September 30	Governmental Activities - Bonds			
	General Obligation		Revenue	
	Principal	Interest	Principal	Interest
2003	\$ 57,833,396	14,593,872	\$ 5,447,000	10,044,220
2004	18,446,744	13,973,414	6,631,000	10,805,470
2005	12,836,152	13,986,641	6,985,000	10,771,692
2006	11,733,903	14,075,182	7,375,000	10,747,112
2007	11,673,147	14,131,712	7,595,000	10,709,772
2008-2012	49,794,750	40,273,559	30,045,000	38,952,081
2013-2017	22,050,000	2,206,554	13,980,000	17,147,266
2018-2019	-	-	6,785,000	6,653,941
Total	\$ 184,368,092	113,240,934	\$ 84,843,000	115,831,555
Bonds Payable	131,298,816	111,930,860		
Notes Payable	53,069,276	1,310,074		
	\$ 184,368,092	113,240,934		

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

Business-type Activities - Bonds

Downriver Sewage Disposal System-General Obligation

Year Ended		Principal	Interest
September 30			
2003	\$	11,402,950	5,482,662
2004		11,666,123	5,194,370
2005		11,976,232	4,906,555
2006		12,248,639	4,610,705
2007		12,573,800	4,308,068
2008-2012		67,731,980	16,649,174
2013-2017		68,804,490	7,828,157
2018-2021		<u>23,144,765</u>	<u>950,723</u>
Total	\$	<u>219,548,979</u>	<u>49,930,414</u>

Rouge Valley Sewage Disposal System-General Obligation

Year Ended		Principal	Interest
September 30			
2003	\$	725,000	261,178
2004		755,000	220,855
2005		605,000	183,202
2006		645,000	147,954
2007		685,000	109,762
2008-2013		1,500,000	109,170
2013-2017		120,000	11,820
2018-2019		<u>43,069</u>	<u>891</u>
Total	\$	<u>5,078,069</u>	<u>1,044,832</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

CSO Basin Sewage Disposal System-General Obligation

Year Ended September 30	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,255,000	1,831,320
2004	2,400,000	1,720,574
2005	2,520,000	1,611,838
2006	2,600,000	1,515,058
2007	2,710,000	1,413,440
2008-2012	15,185,000	5,314,322
2013-2017	<u>14,233,688</u>	<u>1,775,624</u>
Total	<u>\$ 41,903,688</u>	<u>15,182,176</u>

Non-major Business-type Activities - Bonds

Year Ended September 30	<u>Principal</u>	<u>Interest</u>
2003	\$ 425,000	166,548
2004	440,000	152,785
2005	455,000	139,205
2006	460,000	127,505
2007	475,000	115,640
2008-2012	2,575,000	380,788
2013-2014	<u>1,130,000</u>	<u>49,275</u>
Total	<u>\$ 5,960,000</u>	<u>1,131,746</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

In prior years, the County defeased the future principal payments of the following issues by depositing U.S. Treasury obligations with escrow agents:

	Primary Government:		
1994	North Huron Valley - Rouge Valley Wastewater Control System Bonds, Series 1989	\$	4,175,000
1999	Rouge Valley - Dearborn Heights CSO Basin Bonds Series 1994D		9,705,000
1999	Rouge Valley - Inkster CSO Basin Bonds Series 1994F		2,445,000
1999	Rouge Valley - Inkster CSO Basin Bonds Series 1994G		5,595,000
1999	Northeast Sewage Disposal System Bonds Series 1994G		1,475,000
1999	Downriver Sewage Disposal System Bonds Series 1994A		<u>6,065,000</u>
	Total primary government		29,460,000
	Component Units:		
1993	Detroit Metropolitan Wayne County Airport Subordinate Lien Revenue Bonds, Series 1990B		12,285,000
1993	Detroit Metropolitan Wayne County Airport Subordinate Lien Revenue Bonds, Series 1991A		39,580,000
1994	Detroit Metropolitan Wayne County Airport Senior Lien Revenue Bonds, Series VII		1,500,000
2002	Detroit Metropolitan Wayne County Airport Series 1998B Bonds - Principal Only		2,615,000
1994	Chapter 20 Drainage Districts- various municipal obligations		7,960,000
1999	Chapter 21 (Milk River) Drainage District bonds, 1994 Series A		<u>1,065,000</u>
	Total component units		<u>65,005,000</u>
	Total defeased debt	\$	<u>94,465,000</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

Component Units

Changes during FY 2002 and details of long-term obligations related to component units are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Component Units:					
Airport Authority:					
Revenue bonds	\$ 1,685,380,000	244,185,000	(120,125,000)	1,809,440,000	\$ 31,290,000
Bond discount	(19,205,403)	1,141,335	-	(18,064,068)	-
Deferred loss on refunding	(12,241,441)	788,879	(5,916,644)	(17,369,206)	-
Bond Premium	-	6,201,446	(71,057)	6,130,389	-
Total Airport Authority	1,653,933,156	252,316,660	(126,112,701)	1,780,137,115	31,290,000
Circuit Court:					
Capital lease	12,874,588	-	(2,734,438)	10,140,150	3,436,101
Non-major Component Units:					
Bonds payable:					
General obligation debt	16,259,625	4,122	(3,716,314)	12,547,433	2,051,479
Revenue bonds	102,010,095	-	(2,465,000)	99,545,095	2,505,000
Total bonds payable:	118,269,720	4,122	(6,181,314)	112,092,528	4,556,479
Total Component Units	\$ 1,785,077,464	252,320,782	(135,028,453)	1,902,369,793	\$ 39,282,580

Airport Authority - The Detroit Metropolitan Wayne County Airport Revenue Bonds are collateralized by a lien on the net revenues (as defined) of the airport. In general, the full faith and credit of the County has not been extended to cover insufficient revenue sources associated with this debt.

In May 1990, the County entered into agreements with MESABA Aviation to issue approximately \$3.6 million in Airport Special Facility Revenue Bonds to finance the construction of an airline maintenance facility. All debt service costs will be paid by the airline through a trustee. The County is not obligated in any manner to provide debt service in the event of default by MESABA. The agreement also provides for the airline to construct a ramp and taxiway connection. As these bonds are payable from special facility lease rentals payable in full by the respective airlines, the related debt has not been reflected in the financial statements of the Authority.

In October 1996, the County issued \$135.8 million Charter County of Wayne Airport Revenue Refunding Bonds, Series 1996A and 1996B to retire Series 1986 Bonds, at their earliest optional redemption date of December 1, 1996. The refunding bonds are subject to interest rate adjustments determined from time to time by a remarketing agent to reflect the prevailing market. The interest rate borne by the bonds, however, is capped at 12 percent or the maximum rate under Michigan law, so long as a letter of credit is in place. In anticipation of this refunding, in October 1993, the County entered into an interest-rate swap agreement with a notional principal amount of \$126 million, which permitted the County to change the terms of the anticipated bond offering from a variable rate to a fixed-rate coupon of 5.72 percent. Additionally, interest payments that are made to or received from the counterparty commencing December 1, 1996 through the swap termination in 2008, will be reflected as an adjustment of interest expense on the refunding bonds.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

The County defeased the Series 1986 Bonds by placing the proceeds of the Series 1996A and 1996B Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The 1986 Bonds were subsequently called and paid in full in December 1996. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding was \$21.4 million. The County estimates its minimum economic gain (difference between the present value of the debt service payments on the old and new debt) will approximate \$15.3 million. These cash flow savings and economic gain calculations are based on an interest rate of 5.72 percent through 2008, when the swap agreement terminates, and the maximum rate of 12 percent through 2016.

The Series 1996A and 1996B Bonds are revenue obligations of the County and do not constitute an indebtedness of the County within the meaning of any constitutional, statutory or charter provision or limitation. Neither the credit nor the taxing power of the County is pledged for the payment of principal, premium, if any, or interest on these bonds.

In June 1999, the County entered into agreements with Northwest Airlines to issue approximately \$15.2 million in Airport Special Facility Revenue Bonds to finance the construction of an aircraft maintenance facility. All debt service costs will be paid by the airline through a trustee. The County is not obligated in any manner to provide debt service in the event of default by Northwest Airlines. As these bonds are payable from special facility lease rentals payable in full by Northwest Airlines, the related debt has not been reflected in the financial statements of the Authority.

In January 2001, the County issued \$141.9 million Charter County of Wayne Airport Revenue Bonds to provide funds to pay a portion of the costs of certain capital improvements at the Metro Airport. The Series 2001 Bonds and the interest thereon are payable from the Net Revenues derived by the County from the operation of the Metro Airport and available after Net Revenues have first been set aside as required to pay the principal and interest and Redemption Price, if any, on Senior Lien Bonds as provided in the Ordinance. The Series 2001 Bonds are "Junior Lien Bonds" under the Ordinance, and a statutory lien subordinate to the prior lien in respect of Senior Lien Bonds has been established under the Ordinance upon and against the Net Revenues to secure the payment of the Series 2001 Bonds.

The Series 2001 Bonds are variable rate bonds. The remarketing agent is responsible under an agreement with the Metro Airport to establish the interest rate weekly. The interest rate is determined as the rate of interest which, in the judgment of the remarketing agent, would cause the Series 2001 Bonds to have a market value as of the date of determination equal to the principal amount, taking into account prevailing market provisions.

The Series 2001 Bonds are revenue obligations of the County and do not constitute an indebtedness of the County within the meaning of any constitutional, statutory or charter provision or limitation. Neither the credit nor taxing power of the County is pledged for the payment of principal, or interest or premium, if any, on the Series 2001 Bonds, and no owner of any Series 2001 Bond has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the Ordinance.

In March 2001, the County issued \$110.9 million Airport Hotel Revenue Bonds, Series 2001A and Series 2001B. The 2001A Bonds, \$99.6 million, were issued for the purpose of paying the cost of acquiring, construction, equipping and furnishing an airport hotel and related improvements (the "Airport Hotel") at the new McNamara Terminal of the Detroit Metropolitan Wayne County Airport to be owned by the County. In addition, these bonds will pay capitalized interest and certain costs of issuance for this series. The 2001B Bonds, \$11.3 million, were issued for the purpose of paying the County Credit Enhancement Fee, funding the Operation and Maintenance Reserve Fund, and paying capitalized interest and certain costs of issuance related to this series.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

The County has pledged all net Airport Hotel revenues solely for the payment of the Bonds and the Parity Obligations and a statutory first lien has been granted upon all net Airport Hotel revenues for such purpose. In addition, the County has pledged its limited tax full faith and credit as additional security for payment of the principal, premium, if any, and interest on the Bonds, subject to constitutional, statutory and charter tax rate limitations.

In August 2001, the County entered into an Installment Purchase Contract for \$14.4 million to pay for energy conservation improvements at the Metro Airport. The purchase contract is not a revenue or general obligation of the County and does not constitute an indebtedness of the County within the meaning of any constitutional, statutory or charter provision or limitation. Neither the credit nor taxing power of the County is pledged for the payment of principal, or interest or premium, if any, on these improvements.

In May 2002, the County issued \$141.7 million Charter County of Wayne Airport Revenue Bonds to provide funds to pay a portion of the costs of certain capital improvements at the Airport. The Series 2002A Bonds and the interest thereon are payable from the Net Revenues derived from the operation of the Metro Airport.

The Series 2002A Bonds are variable rate bonds. The remarketing agent is responsible under an agreement with the Metro Airport to establish the interest rate weekly. The interest rate is determined as the rate of interest which, in the judgment of the remarketing agent, would cause the Series 2002A Bonds to have a market value as of the date of determination equal to the principal amount, taking into account prevailing market provisions.

The Series 2002A Bonds are revenue obligations of the County and do not constitute an indebtedness of the County within the meaning of any constitutional, statutory or charter provision or limitation. Neither the credit nor taxing power of the County is pledged for the payment of principal, or interest or premium, if any, on the Series 2002A Bonds, and no owner of any Series 2002A Bond has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the Ordinance.

In July 2002, the County issued \$102.5 million Charter County of Wayne Airport Revenue Refunding Bonds, Series 2002C and 2002D. The Series 2002C Refunding Bonds were issued to refund, on a current basis, at the earliest practicable date, the Series 1990B Bonds and the December 2002 principal amount due on the Series 1998B Bonds. The Series 2002D Refunding Bonds were issued to refund, on a current basis, at the earliest practicable date, the Series 1990A Bonds and the Series 1991B Bonds.

The County defeased the Series 1990B, Series 1990A, Series 1991B Bonds, and the December 2002 principal amount due on the Series 1998B Bonds by placing the proceeds of the Series 2002C and 2002D Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The Series 1990B, the Series 1990A, and the Series 1991B Bonds were subsequently called and paid in full in August 2002. The portion of the Series 1998B Bonds was subsequently called and paid in December 2002. The difference between the cash flows required to service the new debt and complete the refunding was \$15.3 million. The County estimates its minimum economic gain (difference between the present value of the debt service payments on the old and new debt) will approximate \$14.1 million.

The Series 2002C and 2002D Refunding Bonds are revenue obligations of the County and do not constitute an indebtedness of the County within the meaning of any constitutional, statutory or charter provision or limitation. Neither the credit nor the taxing power of the County is pledged for the payment of principal, or interest or premium, if any, on the Series 2002C and 2002D Refunding bonds, and no owner of any Series 2002C and 2002D Refunding bond has the right to compel the exercise of the taxing power of the County or the forfeiture of any of its property in connection with any default under the Ordinance.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

In prior years, the County defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the financial statements. On September 30, 2002, \$94.5 million of bonds outstanding are considered defeased.

Circuit Court - The Circuit Court entered into two five-year capital lease obligations with Banc One leasing Corporation to finance a portion of the cost of developing a new Case Management Tracking System. These obligations qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments as of the inception date, August 2000 and September 2000, respectively. The required minimum semi-annual lease payments amount to \$403,230 and \$574,098, respectively. As of September 30, 2002, the outstanding portion of these lease obligations amounted to \$2.2 million and \$3.1 million, respectively. The Circuit Court has recorded a long-term capital lease payable in the government-wide statements and has recorded the developmental costs in its Capital Projects Fund.

In September 2000, the Circuit Court entered into a five-year capital lease obligations through the County's ELF to finance various items of equipment with a total cost of \$4.6 million. This obligation qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments as of the inception date. The required minimum monthly lease payments amount to \$89,213. As of September 30, 2002, the outstanding portion of this lease obligation amounted to \$3.4 million. The County has recorded a long-term capital lease payable in the government-wide statements.

In September 2001, the Circuit Court entered into five-year capital lease obligations through the County's Equipment Leasing Fund to finance various items of equipment with a total cost of \$1.7 million. This obligation qualifies as a capital lease for accounting purposes and has been recorded at the present value of the future minimum lease payments as of the inception date. The required minimum monthly lease payments amount to \$33,641. As of September 30, 2002, the outstanding portion of this lease obligation amounted to \$1.4 million. The county has recorded a long-term capital lease payable in the government-wide statements.

The outstanding portion of the obligations under capital leasing transactions associated with the Circuit Court at September 30, 2002, was \$10.1 million.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2002, were as follows:

September 30,	Capital Lease Obligation
2003	\$ 3,436,101
2004	3,436,101
2005	3,436,101
2006	938,909
Total minimum lease payments	11,247,212
Less amount representing interest	(1,107,062)
Present value of minimum lease payments	\$ 10,140,150

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

Chapter 8, 20, and 21 Drainage Districts - Special assessments receivable on properties benefited by the various Chapter 20 drainage district obligations have been irrevocably pledged for repayment of the related principal and interest. In addition, the County has pledged its full faith and credit for all outstanding obligations of the various drainage districts, with the exception of \$5.15 million of debt relating to the Ecorse Creek Pollution Abatement Drain No. 1 Phase III Drainage District, which is considered defeased.

In September 1991, the Chapter 21 Drainage District authorized the issuance of bonds to the MMBA Revolving Loan Fund for up to \$25.7 million for the Milk River Drainage District Water Pollution Control. Through September 30, 2002, the district has received \$25.5 million from the revolving loan fund.

As discussed above, the Chapter 21 Drainage District issued \$1.2 million Series 1999B Revenue Bonds, under the MMBA's Local Government Loan Program. The bond proceeds were used to refund and effectively defease \$1.1 million of the existing Chapter 21 Drainage District Bonds, Series 1994A.

Detroit-Wayne County Stadium Authority - In April 1997, the Detroit-Wayne County Stadium Authority (Authority) issued bonds totaling \$85.8 million for financing a portion of the cost of acquiring and constructing a baseball stadium for use by the Detroit Tigers major league baseball team and for paying costs of issuance in connection with those bonds. The County has pledged its limited tax full faith and credit for payment of the cash rentals to the Authority under a contract dated March 1, 1997. In addition, the County is required to provide sufficient monies in its annual budget for payment of the cash rentals and, if necessary, to levy ad valorem taxes on all taxable property within its boundaries, subject to constitutional, statutory, and charter tax rate limitations. The County has also pledged certain motor vehicle rentals and hotel tax revenues (the "Tourist Taxes") levied by the County pursuant to Act No. 180, Public Acts of Michigan 1991.

The annual requirement to pay principal and interest on the debt outstanding as reflected above, excluding capital leases, at September 30, 2002 is summarized as follows:

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

Airport Authority - Revenue Bonds

Year Ended September 30	Principal	Interest
2003	\$ 31,290,000	83,872,717
2004	34,430,000	83,090,674
2005	35,820,000	81,373,238
2006	38,695,000	79,462,273
2007	42,555,000	77,348,912
2008-2012	398,210,000	337,880,114
2013-2017	322,835,000	259,517,879
2018-2022	345,565,000	174,019,672
2023-2027	345,735,000	90,899,939
2028-2032	207,200,000	13,783,932
2033	7,105,000	79,931
Total	\$ 1,809,440,000	1,281,329,281

Non-major Component Units - Revenue Bonds

Year Ended September 30	Principal	Interest
2003	\$ 2,505,000	4,781,471
2004	2,545,000	4,686,528
2005	2,590,000	4,592,156
2006	2,635,000	4,501,914
2007	3,390,000	4,391,157
2008-2012	20,935,095	19,635,656
2013-2017	18,445,000	14,922,563
2018-2022	23,250,000	9,154,688
2023-2027	23,250,000	3,051,563
Total	\$ 99,545,095	69,717,696

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(11) Debt and Other Obligations, Continued

Non-major Component Units - General Obligation Bonds

<u>Year Ended</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,051,479	655,185
2004	1,381,730	560,132
2005	1,388,226	483,455
2006	1,369,492	404,991
2007	1,397,644	328,574
2008-2012	4,783,468	665,655
2013-2017	124,537	14,342
2018-2019	50,857	1,204
Total	\$ 12,547,433	3,113,538

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

12) **Employee Benefits**

Pension Plans

Wayne County Employees Retirement System

Plan Description

The County provides retirement benefits to its employees through the Wayne County Employees' Retirement System (WCERS), a single-employer public employee retirement system which is governed by the Wayne County Retirement Ordinance, as amended. The Retirement System provides three contributory, defined-benefit retirement options (together, the Defined Benefit Plan) and a Defined Contribution Plan. The Retirement System provides retirement, survivor, and disability benefits to substantially all County employees. In addition, the County's Retirement Board of Commissioners administers the Wayne County Circuit Court Commissioners Bailiffs' Retirement System, a defined-benefit plan. The Retirement Board issues separate financial statements annually. Copies of financial statements for each plan can be obtained at 28 W. Adams, Suite 1900, Detroit, Michigan 48226.

The Defined Benefit Plan (Plan Option 1, Plan Option 2, Plan Option 3, and Plan Option 5, or collectively "the Plan") and the Defined Contribution Plan (Plan Option 4 and Plan Option 5) have been combined for presentation in the financial statements.

In 1983, the County closed Plan Option 1 of the WCERS to new hires, and added two new options under the Defined Benefit Plan, which resulted in a lower final benefit to the participant. At September 30, 2001, the date of the most recent actuarial valuation, membership consisted of 5,894 retirees and beneficiaries receiving benefits, 150 inactive (separated) employees entitled to benefits but not yet receiving them, and 1,058 current active employees combined in the Plan.

Effective October 1, 2001, WCERS established the Wayne County Hybrid Retirement Plan #5 ("Plan Option 5"), which contains both a defined benefit component and a defined contribution component. Participants in the plan options previously in existence ("Plan Option 1," "Plan Option 2," and "Plan Option 3") could elect to transfer their account balances to Plan Option 5 between October 1, 2001 and June 30, 2002. New employees could elect to participate in Plan Option 5 through September 30, 2001. Effective October 1, 2001, only Plan Option 5 is available to new employees; Plan Options 1, 2, and 3 are closed to new hires. Because there is no legal requirement to segregate the assets relating to Plan Options 1, 2, 3, or 5 in paying benefits, the accompanying financial statements include the net assets and changes in net assets relating to Plan Options 1, 2, and 3, as well as the defined benefit component of Plan Option 5. The defined contribution portion of Plan Option 5 is included in the financial statements of the WCERS Defined Contribution Plan.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The County's policy, in accordance with State statute, is to fund pension costs. Accrued unfunded actuarial liabilities, if any, are amortized over a 14-year period.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

Methods Used to Value Investments

The Retirement Board of Commissioners has authority to invest the Plan's assets in common and preferred stock; obligations of the United States, its agencies, or U.S. government sponsored enterprises; obligations of any state or political subdivision of a state having the power to levy taxes; banker's acceptances; certificates of deposit; commercial paper; repurchase agreements; real and personal property; mortgages; and certain other investments.

Market values for common stocks and money market funds are based on September 30, 2002 closing market quotations. Fixed debt quotations are provided by a national brokerage pricing service. Mortgage market values are determined on the basis of comparable yields available in the marketplace. Investments, in certain partnerships that do not have a readily determinable market value are recorded at cost.

The Plan had the following individual non-governmental investments that exceeded five percent of total assets as of September 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
First Eagle Sogen Funds Overseas Fund, Class A	\$ 957,812	\$ -
General Motors Acceptance Corporation Medium-Term NTS bond	515,068	-
Paine Webber pace Large Company Value Equity Fund, Class A	-	1,045,165
Brinson Strategy Fund, Class A	-	450,000

Contributions

Participants in Plan Option 1 contribute 2 to 2.58 percent of annual compensation for 17 or more years of credited service. The Sheriff's Command Officers contribute 5.0 percent of annual compensation and Sheriff Deputies contribute 4.25 percent of the first \$13,500 of annual compensation, plus 6.25 percent of annual compensation in excess of \$13,500. Participants in Plan Option 2 do not make plan contributions but receive a lower final benefit. Plan Option 3 participants make decreased contributions of 3.0 percent of covered compensation, and receive a lower final benefit. Participants in Plan Option 5 make no member contributions.

The obligation to contribute and to maintain the Plan for these employees was established by negotiations with the County's collective bargaining units.

Annual Pension Cost

For the fiscal year ended September 30, 2002, the County's annual pension cost of \$44,964 was equal to the County's required and actual contributions. The annual required contribution was determined using an actuarial valuation of the Plan dated September 30, 2000, (the projected unit credit actuarial cost method) determined as a level percentage of payroll. The County has agreed to voluntarily contribute such additional amounts as necessary to provide assets sufficient to meet the benefits to be paid to Plan members. The significant actuarial assumptions used to compute the contribution requirements include a rate of return on the investment of present and future assets of 8.0 percent compounded annually, and projected salary increases of 4.0 to 7.0 percent compounded annually.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) **Employee Benefits, Continued**

Pension Benefits

Benefits are paid monthly over the member's or survivor's lifetime, after meeting normal retirement or duty disability retirement requirements which vary by option, based on the following percentages of average final compensation, for each year of credited service:

Plan Option 1 - 2 to 2.65 percent for each year. Maximum County-financed portion is 75 percent of average final compensation. Minimum monthly pension is \$5 times years of service.

Plan Option 2 - 1 percent for each year up to 20 years, and 1.25 percent for each year over 20 years. Maximum County-financed portion is 75 percent of average final compensation.

Plan Option 3 - 1.5 percent for each year up to 20 years, 2 percent for each year between 20 and 25 years, and 2.5 percent for each year over 25 years.

Plan Option 5 - 1.25 percent for each year up to 20 years, and 1.5 percent for each year over 20 years.

Death and Disability Benefits - The Plan also provides non-duty death and disability benefits to members after ten years of credited service for Plan Option 1, 2 and 5 along with, non-duty death benefits for Plan Option 3. The ten-year service provision is waived for duty disability and death benefits for Plan Option 1, and duty disability for Plan Option 2.

The following represents the County's annual pension costs as of September 30, 2002:

Three Year Trend Information
(Dollar amounts in thousands)

Fiscal Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 3,805	100	-
2001	39	100	-
2002	45	100	-

Reserves (Employees)

As of September 30, 2002, the Plan's legally required reserves have been fully funded as follows:

Reserve for employee contributions	\$ 49,827,598
Reserve for employer contributions	196,915,749
Reserve for pension payments	608,156,867
Reserve for inflation equity	113,102,497
Total reserve balances	\$ 968,002,711

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

The information presented in the following schedules was determined as part of the actuarial valuations as of the dates indicated.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded) Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered+ Payroll (c)	UAAL as a Percent of Covered Payroll [(b)-(a)]/(c)
09/30/99	965.8	915.3	(50.5)	105.5	256.4	N/A
09/30/00&	1,028.6	947.6	(81.0)	108.5	275.6	N/A
09/30/01	1,041.6	979.2	(62.4)	106.4	294.1	N/A

- # After changes in benefit provisions or revised actuarial assumptions.
- * Excludes reserve for inflation equity.
- + Includes defined contribution plan payroll.
- @ After one-time adjustment equal to UAAL.
- & Change in Inflation Equity calculation.

REQUIRED SUPPLEMENTARY INFORMATION
SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the date indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	September 30, 2001
Actuarial cost method	Projected unit credit actuarial cost method
Amortization method	Level percentage of payroll
Remaining amortization period	N/A, closed
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
* Investment rate of return	8.0%
* Projected salary increases	4.0% - 7.0%
Cost-of-living adjustments	N/A

* Indicates inflation at 4.0%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the Plan, or the actuarial methods and assumptions used.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

Wayne County Circuit Court Commissioners Bailiffs' Retirement System

Plan Description

The Wayne County Circuit Court Commissioners Bailiffs' Retirement System (Bailiffs' Retirement System) is a single-employer defined benefit public employee retirement plan (the Plan) governed by the WCERS and created under the County of Wayne's Enrolled Ordinance No. 86-486 (November 20, 1986), as amended. The Bailiffs' Retirement System was established by the County to provide retirement, survivor, and disability benefits to the County's Circuit Court Commissioners Bailiffs Unit employees.

The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the County has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administrative expenses are financed through investment earnings.

Methods Used to Value Investments

The Retirement Board of Commissioners has authority to invest the Plan's assets in common and preferred stock; obligations of the United States, its agencies, or U.S. government sponsored enterprises; obligations of any state or political subdivision of a state having the power to levy taxes; banker's acceptances; certificates of deposit; commercial paper; repurchase agreements; real and personal property; mortgages; and certain other investments.

Market values for common stocks and money market funds are based on September 30, 2002 closing market quotations. Fixed debt quotations are provided by a national brokerage pricing service. Mortgage market values are determined on the basis of comparable yields available in the marketplace.

The Plan did not hold any individual non-governmental investments that exceeded five percent of total assets as of September 30, 2002.

Contributions

The Plan's basic benefits are funded by contributions from the State of Michigan through prior agreement, by active members, and by investment income earned on Plan assets. Plan members contribute 3.0 percent of the first \$4,200 of annual compensation plus 5.0 percent of annual compensation in excess of \$4,200.

The funding policy provides for periodic contributions based upon a fundamental financial objective of having rates of contribution that remain relatively level from generation to generation. To determine the employer contribution rates and to assess the extent to which the fundamental financial objective is being achieved, the Plan has actuarial valuations prepared annually. In preparing those valuations, the entry age normal actuarial cost method is used to determine normal cost and actuarial accrued liabilities.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

Annual Pension Cost

For the fiscal year ended September 30, 2002, there were no required contributions or actual contributions made by the County. The annual pension cost of \$68,063 was equal to the actual contributions provided by the State of Michigan. The annual required contribution was determined using an actuarial valuation of the Plan as of September 30, 2000. Contributions were determined using an entry age normal actuarial cost method. The over funding of required contributions is being amortized over fourteen years.

Pension Benefits

Employees with 25 years of service and having attained age 50, as well as employees with five years of service and having attained age 60, are entitled to annual pension benefits upon reaching the applicable retirement age. There is no mandatory retirement age. Pension benefits are calculated as total years of service multiplied by 2.0 percent of average final compensation. The maximum portion financed by the WCERS is 75 percent of average final compensation.

There were six active participants in the Plan for 2002 (all of whom were vested), and seven retirees and beneficiaries receiving benefits.

Three-Year Trend Information
(Dollar amount in thousands)

<u>Fiscal Year Ended September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	-	-	-
2001	-	-	-
2002	-	-	-

Reserves (Circuit Court)

As of September 30, 2002, the Plan's legally required reserves have been fully funded as follows:

Reserve for employee contributions	\$	1,186,866
Reserve for employer contributions		1,292,977
Reserve for pension payments		1,402,096
Reserve for inflation equity		4,678
Unallocated net assets		<u>40,070</u>
Total reserve balances	\$	<u>3,926,687</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2001
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	Fourteen years, open
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
*Investment rate of return	7.0%
*Projected salary increases	3.0%
Cost-of-living adjustments	Inflation equity reserve distributions

*Indicates inflation at 3.0%

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the Plan, or the actuarial methods and assumptions used.

Wayne County Employees' Retirement System Defined Contribution Plan

The Wayne County Employees' Retirement System instituted a Defined Contribution Plan, a single employer plan ("Plan Option 4") under the County's Enrolled Ordinance No. 86-486 (November 20, 1986), as amended. The Plan was established to provide retirement, survivor and disability benefits to County employees. The administration, management and responsibility for the proper operation of the Plan are vested in the trustees of the Wayne County Retirement Commission.

Under Plan Option 4, the County contributes \$4.00 for every \$1.00 contributed by each member, or for eligible executives; \$5.00 for every \$1.00 contributed by each member, with the member contributions ranging from 1.0 percent to 2.5 percent of base compensation, not to exceed \$1,250 annually under certain collective bargaining agreements and employee benefit packages. For eligible executives, the County contributes 12.5 percent of the member's compensation, with the member contribution limited to 2.5 percent of compensation. All full-time, permanent County employees are eligible to join the Plan. Employees hired prior to July 1, 1984 are eligible to transfer from the Wayne County Employees' Retirement System Defined Benefit Plan to the Plan through September 30, 2002. At September 30, 2001, the date of the most recent actuarial valuation, there were 5,018 employees in the Plan. Classified employees are vested as to employer contributions after three years of service, and executive members are vested after two years of service. Total employer and employee contributions during 2002, representing 10.0 percent of payroll, were \$24.0 million and \$6.6 million, respectively.

In Plan Option 4, members are able to receive loans from the Defined Contribution Plan. Only active employees with a vested account balance of \$2,000 or more are eligible. Interest on the loans is at the rate of five-year Treasury notes plus 300 basis points (3 percent) rounded to the nearest quarter of a percent.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

Participants in Plan Option 5 contribute three percent of gross pay. The County makes matching contributions at a rate equal to the amount contributed by each employee. At September 30, 2002, there were 579 employees in the Plan. Classified employees are vested at 50 percent after one year of service, 75 percent after two years of service, and 100 percent after three years of service. All full-time, permanent County employees are eligible to join the Plan. Those employees hired prior to July 1, 1984 were eligible to transfer from the WCERS Defined Benefit Plan to the Plan through September 30, 2002. Effective October 1, 2001, the County closed Plan Option 4 to new hires. Plan Option 5 is available to all persons hired after September 30, 2001.

The Plan uses the accrual basis of accounting, which recognizes revenues as earned and expenses as incurred. Market values for common stock, money market funds and mutual funds are based on September 30, 2002 closing market quotations.

The Plan had the following individual non-governmental investments that exceeded five percent of total assets as of September 30, 2002:

Aeltus Large Cap Blend Fund	\$ 35,580,349
Berger Small Cap Value I Fund	16,185,949
CIGNA Guaranteed Income Fund	72,680,304
Janus Worldwide Fund	10,758,130
Multi Manager Balanced Fund	19,566,540

Other Post Retirement Benefit Obligations

The County provides hospitalization and other health insurance for retirees pursuant to agreements with various collective bargaining units or other actions of the Wayne County Commission or the Wayne County Retirement Commission Trustees. Benefits are provided to retirees under the age of 65 and their eligible dependents, and the cost of federal Medicare premiums and supplemental hospitalization for retirees over 65 and their eligible dependents, as these costs are incurred by the retirees. The County paid approximately \$32 million for the fiscal year ended September 30, 2002 for these benefits. In addition, the County pays the cost of the basic retiree life insurance, up to \$5,000 per employee, on a pay as you go basis. Total costs for the year ended September 30, 2002 amounted to \$2.7 million. There were 5,894 retirees as of September 30, 2002 eligible for benefits.

Substantially all County employees may become eligible for benefits if they reach normal retirement age while employed by the County. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 12, *Disclosure of Information on Post Employment Benefits Other Than Pension Benefits*, no determination of the County's continuing obligation for these benefits has been made as of September 30, 2002.

Deferred Compensation Plan

The County has made available to all permanent employees a deferred compensation plan (the Plan) established in accordance with Internal Revenue Code Section 457. The Plan permits participating employees to defer a portion of their salary until future years. Accumulated deferred compensation amounts are not available to employees or their estates until retirement, death, or unforeseeable emergency.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(12) Employee Benefits, Continued

All assets of the Plan are (until paid or made available to the participant or beneficiary) held in trust by a third party administrator for the exclusive benefit of the participants and their beneficiaries. The assets are invested in annuity contracts and mutual funds.

It is the opinion of the County's Corporation Counsel that the County has no liability for losses under the Plan but does have the fiduciary duty of due care that would be required of an ordinary prudent investor.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans*, the assets and liabilities of the deferred compensation plan have been removed from the County's financial statements.

(13) Fund Deficits

The County is required by its Home Rule Charter and State statutes, specifically Public Act 2 of 1968 and Public Act 275 of 1980, as amended, to operate under a plan to eliminate any undesignated fund deficits.

Component Units

Fund deficits recorded in individual Chapter 20 Drainage Districts at September 30, 2002 amounted to approximately \$517,300. These deficits are expected to be eliminated through future assessments.

Fund deficits recorded in individual Chapter 21 Drainage Districts at September 30, 2002, amounted to approximately \$125,900. These deficits are expected to be eliminated through future assessments.

Fund deficits recorded in the Circuit Court Fund at September 30, 2002 amounted to \$9,811,100. This deficit is expected to be eliminated through staff reductions and the reorganization and/or elimination of certain Court functions.

Governmental Funds

The fund deficit recorded in the Mental Health Fund, a major fund, at September 30, 2002 amounted to \$15,396,500. This deficit is expected to be eliminated through the reduction of programs and the reorganization/consolidation of certain administrative functions.

The fund deficit recorded in the Soldiers' Relief Fund, a non-major Governmental Fund, at September 30, 2002 amounted to \$239,000. This deficit is expected to be eliminated through an increase in property tax rates. The Soldiers' Relief Fund activities are State mandated and are funded through property tax levies.

(14) Commitments and Contingencies

Claims, litigation, and assessments for the year ended September 30, 2002, and prior years, which were settled shortly after September 30, 2002, have been charged to current fiscal year operations. Certain claims, litigation, and assessments asserted against the County which are probable of loss and estimable in amount are reflected in the government-wide financial statements at September 30, 2002. In the governmental fund financial statements, liabilities are accrued when costs are settled and the amount is due and payable.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(14) Commitments and Contingencies

The U.S. Environmental Protection Agency has formally notified the County that it is in violation of the Federal Clean Water Act. On February 11, 1994, the County was required by a consent decree to make certain improvements to the Downriver Sewage Disposal System to address the immediate public health and welfare needs of the residents of those communities. The County issued bonds to cover the estimated cost of these additional improvements. The debt service on the bonds is paid by the participating local communities. The total cost of the improvements is expected to be approximately \$335 million.

In December 1999, the State of Michigan ("State") and the County reached an agreement regarding funding of prior disputed Juvenile Justice and Abuse/Neglect Fund (formally the Child Care Fund) costs. Under the terms of the settlement, the County agreed to pay the State approximately \$40 million and the State agreed to release the County from all related liability, and allowed the County to borrow approximately \$40 million from the Emergency Loan Board at an initial rate of 5.532 percent per annum to pay this obligation. The State further stipulated that repayment of loan principal would not begin until November 1, 2009 and would only be paid from revenues which were otherwise distributable to the County from Section 5(b) of the 1987 PA 264, as amended, the Health and Safety Fund Act (Cigarette Tax). Additionally, this loan was not secured by the County's full faith and credit.

In 1999, the County began the process of acquiring 1,800 acres of land for the development of retail, commercial, office and high technology facilities, a golf course, and a hotel. In FY 2001, the County completed the acquisition of the land. The \$50 million "Pinnacle Aeropark", which is expected to be completed in ten years, will be linked to the new McNamara Terminal at the Detroit Metropolitan Wayne County Airport.

In December 2002, a Wayne County Circuit Court judge ruled that a 1990 settlement agreement between Detroit Receiving Hospital and the County of Wayne was enforceable against Wayne County for the hospital's full charge rate for medical services provided to inmates housed in the Wayne County Jail.

The charge rates in dispute are from September 2001 to the present. As of September 30, 2002, a provision for this potential exposure has been recorded in the financial statements in the amount of \$6 million.

The Detroit-Wayne County Community Mental Health Agency (the Mental Health Fund) is both a defendant and plaintiff in several claims, lawsuits and billing disputes with community hospitals and pending demands which are the result of unresolved audits of community hospitals and other service providers. The outcome of these matters is not reasonably determinable. Management believes that final settlement resulting from the aforementioned matters will not materially impact the County's financial position or results of operations.

The County receives funds from other governmental units to finance specific grants. The final determination of allowable amounts is subject to financial and compliance audits by the responsible agencies. As of September 30, 2002, the audits of certain programs were not completed. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. Provision for certain expected disallowances has been made as of September 30, 2002. However, the amount, if any, of other expenditures that may be disallowed by the granting agencies cannot be determined at this time. County management believes that such amounts, if any, would not be material.

The County is a defendant in a number of other lawsuits, a party in other disputes, and subject to claims and property tax appeals which have resulted from its activities in providing services to the citizens of Wayne County. The ultimate unrecorded effect on the County's financial statements of the resolution of these matters is, in the opinion of management, not expected to be material.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(15) Self Insurance

The County is self-insured for worker's compensation, certain health benefits and other claims, litigation, and assessments. Accruals for claims, litigation, and assessments are recorded in the government-wide and proprietary fund financial statements. These accruals are recorded in the fund financial statements, within the governmental funds, when the amounts will be paid from available and expendable financial resources. All other amounts are recorded in the government-wide financial statements when probable of loss and estimable in amount.

Health insurance and worker's compensation claims that are probable of loss and estimable in amount are included in the government-wide, proprietary and fiduciary fund financial statements. Other claims consist of property damage and minor auto damage claims. The amount of claims liability is based on analyses performed by outside consultants and includes an estimate of incurred claims that have not yet been reported. The County purchases commercial insurance for claims in excess of coverage provided by the internal service funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

A reconciliation of the County's self-insured claims liability at September 30, 2002 follows:

	Worker's Compensation	Hospitalization Insurance	Other Claims	Total
Claims liability, September 30, 2000	\$ 15,464,000	5,283,555	75,000	\$ 20,822,555
Claims incurred during fiscal year 2001	983,793	58,128,218	4,039,329	63,151,340
Change in estimate for prior period claims	(1,991,000)	(4,940,227)	-	(6,931,227)
Payments on claims	<u>(1,760,793)</u>	<u>(54,362,003)</u>	<u>(4,039,329)</u>	<u>(60,162,125)</u>
Claims liability, September 30, 2001	12,696,000	4,109,543	75,000	16,880,543
Claims incurred during fiscal year 2002	1,620,773	62,462,603	157,535	64,240,911
Change in estimate for prior period claims	(4,562,021)	(234,559)	-	(4,796,580)
Payments on claims	<u>(329,149)</u>	<u>(62,188,494)</u>	<u>(157,535)</u>	<u>(62,675,178)</u>
Claims liability, September 30, 2002	<u>\$ 9,425,603</u>	<u>4,149,093</u>	<u>75,000</u>	<u>\$ 13,649,696</u>

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(16) Budget Matters

The following is a listing of total expenditures in excess of the final amended budget for the major Governmental Funds, the General Fund, the Mental Health Fund and the Juvenile Justice and Abuse/Neglect Fund, and for the other governmental funds for which an annual budget has been legally adopted. Expenditures are presented at the legal level of budgetary control. The budgetary comparison schedules for the major governmental funds begin on pages II-103 and II-117, respectively.

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Over</u>
General Fund:			
Legislative -			
County Commission	9,492,838	9,575,732	82,894
General Government -			
Office of the County Executive	2,752,059	2,820,720	68,661
Criminal Justice Administration	308,532	326,132	17,600
Public Safety:			
Court services	14,914,433	15,739,943	825,510
Field services	3,747,467	3,918,201	170,734
Jail operations	83,808,032	88,436,461	4,628,429
Emergency preparedness	724,212	757,468	33,256
Public Works:			
Drain assessments - County share	337,146	383,074	45,928
Health and Welfare:			
Jail mental health	5,658,156	7,260,461	1,602,305
Special Revenue Funds:			
Mental Health	548,059,299	561,168,636	13,109,337
Children and Family Services	21,573,609	21,619,332	45,723
Drug Enforcement	2,318,758	2,380,229	61,471
Juvenile Justice and Abuse/Neglect	154,545,797	167,329,885	12,784,088
Soldiers' Relief	886,773	1,080,361	193,588
County Library	5,000,554	5,290,276	289,722
Parks	14,333,993	27,859,373	13,525,380
Debt Service Funds:			
General Debt Service	18,043,562	18,048,562	5,000
Wayne County Building Authority	14,779,954	15,300,008	520,054

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

(16) Budget Matters, Continued

General Fund - The supplemental appropriations and budget expenditure overages in the General Fund were funded from additional charges for services by the Register of Deeds, \$4.5 million; transfers from the Delinquent Tax Fund, \$12.0 million; transfers from the Budget Stabilization Fund, \$8.0 million; Capital Projects Fund, \$4.0 million; and a transfer of \$5.2 million from the General Debt Service Fund related to cumulative excess debt service payments on paid debt. These changes resulted in a net \$0.6 million increase in the General Fund balance.

Mental Health Fund - The Mental Health expenditures exceeded budget by \$13.1 million. This shortfall will be carried over to the next fiscal year and eliminated through program expenditure reductions.

Children and Family Fund - The expenditures exceeded budget by \$45,723. This overage was funded by additional federal grant revenue and interest earnings.

Drug Enforcement Fund - The budget expenditure overages were funded from a General Fund appropriation of \$542,742.

Juvenile Justice and Abuse/Neglect Fund - The expenditures exceeded budget by \$12.8 million. This shortfall was funded by a supplemental General Fund appropriation.

Soldier's Relief Fund - The Soldier's Relief Fund is funded through a property tax millage. Budgetary expenditure overages will be carried over to the following year and eliminated through a millage increase.

County Library Fund - The budget overages in the County Library Fund were funded from additional charges for services of \$377,980.

Parks Fund - The budget overages in the Parks Fund were funded from capital lease proceeds of \$14.1 million.

General Debt Service Fund - The expenditure overage was funded by supplemental interest earnings.

Wayne County Building Authority Fund - The expenditure budget overage, \$520,054, in the Wayne County Building Authority was funded from existing fund balance.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Financial Statements, Continued
For the year ended September 30, 2002

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CHARTER COUNTY OF WAYNE, MICHIGAN
 Budgetary Comparison Schedule
 Major Governmental Funds
 General Fund
 For the year ended September 30, 2002

	Original Budget	Final Amended Budget	Actual	Variance Over (Under)
Revenues:				
Taxes	\$ 290,181,522	291,181,522	294,063,719	2,882,197
Licenses and permits	140,150	176,794	171,419	(5,375)
Federal grants	300,404	867,863	508,349	(359,514)
State grants and contracts	82,076,181	78,599,710	78,157,309	(442,401)
Local grants and contracts	15,468,603	10,491,975	10,597,567	105,592
Charges for services	71,214,409	72,001,496	72,334,137	332,641
Interest and rents	6,500,000	6,500,000	2,171,465	(4,328,535)
Other revenues	<u>19,799,660</u>	<u>17,956,410</u>	<u>18,028,524</u>	<u>72,114</u>
Total revenues	485,680,929	477,775,770	476,032,489	(1,743,281)
Expenditures:				
Current operations:				
Legislative	11,388,944	11,873,944	11,869,328	4,616
Judicial	94,388,038	94,388,038	94,125,817	262,221
General government	92,608,286	97,622,665	87,641,808	9,980,857
Public safety	119,128,811	115,314,109	119,691,768	(4,377,659)
Public works	983,143	1,612,143	1,611,438	705
Highways, streets and bridges	-	-	-	-
Health and welfare	49,312,748	51,324,256	50,511,088	813,168
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Non-departmental	<u>11,594,397</u>	<u>11,594,397</u>	<u>10,556,049</u>	<u>1,038,348</u>
Total expenditures	<u>379,404,367</u>	<u>383,729,552</u>	<u>376,007,296</u>	<u>7,722,256</u>
Revenues over expenditures	106,276,562	94,046,218	100,025,193	5,978,975
Other financing sources (uses):				
Transfers in	7,000,000	31,900,900	36,270,241	-
Transfers out	(113,276,562)	(125,947,118)	(135,731,863)	(9,784,745)
Proceeds from capital leases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing uses	<u>(106,276,562)</u>	<u>(94,046,218)</u>	<u>(99,461,622)</u>	<u>(5,415,404)</u>
Operating revenues and other sources over expenditures and other uses	-	-	563,571	563,571
Fund balance at October 1, 2001	<u>29,859,372</u>	<u>29,859,372</u>	<u>29,859,372</u>	<u>-</u>
Fund balance at September 30, 2002	<u>\$ 29,859,372</u>	<u>29,859,372</u>	<u>30,422,943</u>	<u>563,571</u>

See accompanying note to required supplementary information.

CHARTER COUNTY OF WAYNE, MICHIGAN
 Budgetary Comparison Schedule
 Major Governmental Funds
 Roads Fund
 For the year ended September 30, 2002

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Over <u>(Under)</u>
Revenues:				
Taxes	\$ -	-	-	-
Licenses and permits	-	-	-	-
Federal grants	38,900,472	15,900,472	13,765,637	(2,134,835)
State grants and contracts	99,365,100	99,365,100	100,475,973	1,110,873
Local grants and contracts	4,750,000	2,750,000	895,771	(1,854,229)
Charges for services	7,208,600	11,858,824	10,078,833	(1,779,991)
Interest and rents	1,663,600	2,133,069	1,461,790	(671,279)
Other	<u>5,308,400</u>	<u>38,852,292</u>	<u>3,666,447</u>	<u>(35,185,845)</u>
Total revenues	157,196,172	170,859,757	130,344,451	(40,515,306)
Expenditures:				
Personnel	45,184,179	45,184,179	42,648,235	2,535,944
Fringe benefits	15,327,243	15,327,243	14,776,053	551,190
Pension	4,440,097	4,440,097	3,154,293	1,285,804
Materials and supplies	16,550,500	16,962,500	16,500,748	461,752
Contractual services	73,714,609	50,249,609	50,768,568	(518,959)
Travel	493,900	493,900	457,548	36,352
Operating	8,088,427	7,366,427	5,393,682	1,972,745
Rentals	925,543	925,543	602,724	322,819
Other charges	106,602	106,602	3,918,156	(3,811,554)
Capital outlay	15,722,600	23,709,192	14,232,771	9,476,421
Debt service	-	-	-	-
Total expenditures	<u>180,553,700</u>	<u>164,765,292</u>	<u>152,452,778</u>	<u>12,312,514</u>
Revenues over (under) expenditures	(23,357,528)	6,094,465	(22,108,327)	(28,202,792)
Other financing sources (uses):				
Transfers in	29,451,993	-	-	-
Transfers out	(6,094,465)	(6,094,465)	(5,911,365)	183,100
Proceeds from capital leases	-	-	-	-
Other financing sources	-	-	-	-
Total other financing sources (uses)	<u>23,357,528</u>	<u>(6,094,465)</u>	<u>(5,911,365)</u>	<u>183,100</u>
Operating revenues and other sources under expenditures and other uses	-	-	(28,019,692)	(28,019,692)
Fund balance at October 1, 2001	<u>54,998,004</u>	<u>54,998,004</u>	<u>54,998,004</u>	-
Fund balance at September 30, 2002	<u>\$ 54,998,004</u>	<u>54,998,004</u>	<u>26,978,312</u>	<u>(28,019,692)</u>

See accompanying note to required supplementary information.

CHARTER COUNTY OF WAYNE, MICHIGAN
 Budgetary Comparison Schedule
 Major Governmental Funds
 Mental Health Fund
 For the year ended September 30, 2002

	Original Budget	Final Amended Budget	Actual	Variance Over (Under)
Revenues:				
Taxes	\$ -	-	-	-
Licenses and permits	-	-	-	-
Federal grants	-	-	-	-
State grants and contracts	519,179,582	513,047,924	511,041,187	(2,006,737)
Local grants and contracts	1,244,374	925,689	925,688	(1)
Charges for services	15,625,990	15,412,130	15,412,131	1
Interest and rents	1,200,000	659,400	659,400	-
Other	-	-	-	-
Total revenues	537,249,946	530,045,143	528,038,406	(2,006,737)
Expenditures:				
Personnel	9,961,355	5,954,250	5,954,251	(1)
Fringe benefits	3,231,759	2,254,938	2,254,939	(1)
Pension	1,238,226	470,900	470,900	-
Materials and supplies	425,997	314,157	314,157	-
Contractual services	528,232,546	537,473,365	550,582,701	(13,109,336)
Travel	132,600	85,351	85,351	-
Operating	10,399,743	509,296	509,296	-
Rentals	729,729	717,333	717,333	-
Other charges	195,558	111,028	111,028	-
Capital outlay	436,147	168,681	168,680	1
Debt service	-	-	-	-
Total expenditures	554,983,660	548,059,299	561,168,636	(13,109,337)
Revenues under expenditures	(17,733,714)	(18,014,156)	(33,130,230)	(15,116,074)
Other financing sources (uses):				
Transfers in	17,733,714	18,014,156	17,733,714	(280,442)
Transfers out	-	-	-	-
Proceeds from capital leases	-	-	-	-
Other financing sources	-	-	-	-
Total other financing sources	17,733,714	18,014,156	17,733,714	(280,442)
Operating revenues and other sources under expenditures and other uses	-	-	(15,396,516)	(15,396,516)
Fund balance at October 1, 2001	-	-	-	-
Fund balance at September 30, 2002	\$ -	-	(15,396,516)	(15,396,516)

See accompanying note to required supplementary information.

CHARTER COUNTY OF WAYNE, MICHIGAN
Budgetary Comparison Schedule
Major Governmental Funds
Health Fund
For the year ended September 30, 2002

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues:				
Taxes	\$ -	-	-	-
Licenses and permits	-	-	-	-
Federal grants	409,100	409,100	126,001	(283,099)
State grants and contracts	9,635,288	9,222,849	9,177,589	(45,260)
Local grants and contracts	72,000	80,000	80,000	-
Charges for services	15,825,840	20,306,766	19,167,216	(1,139,550)
Interest and rents	-	-	-	-
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	25,942,228	30,018,715	28,550,806	(1,467,909)
Expenditures:				
Personnel	11,251,090	10,529,733	10,228,860	300,873
Fringe benefits	4,058,669	3,765,333	3,927,196	(161,863)
Pension	1,098,053	907,656	533,101	374,555
Materials and supplies	685,117	741,017	462,171	278,846
Contractual services	18,037,402	20,926,712	20,503,811	422,901
Travel	386,606	392,527	393,640	(1,113)
Operating	229,533	279,927	257,555	22,372
Rentals	514,396	799,300	687,034	112,266
Other charges	173,671	113,321	6,923	106,398
Capital outlay	94,027	72,822	59,407	13,415
Debt service	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	36,528,564	38,528,348	37,059,698	1,468,650
Revenues under expenditures	(10,586,336)	(8,509,633)	(8,508,892)	741
Other financing sources (uses):				
Transfers in	10,586,336	8,509,633	8,508,892	(741)
Transfers out	-	-	-	-
Proceeds from capital leases	-	-	-	-
Other financing sources	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	10,586,336	8,509,633	8,508,892	(741)
Revenues and other sources over (under) expenditures and other uses	-	-	-	-
Fund balance at October 1, 2001	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance at September 30, 2002	\$ -	-	-	-
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See accompanying note to required supplementary information.

CHARTER COUNTY OF WAYNE, MICHIGAN
 Budgetary Comparison Schedule
 Major Governmental Funds
 Juvenile Justice and Abuse/Neglect Fund
 For the year ended September 30, 2002

	Original Budget	Final Amended Budget	Actual	Variance Over (Under)
Revenues:				
Taxes	\$ -	-	-	-
Licenses and permits	-	-	-	-
Federal grants	-	-	-	-
State grants and contracts	71,708,638	72,010,531	76,830,275	4,819,744
Local grants and contracts	384,838	721,423	951,423	230,000
Charges for services	-	-	67,780	67,780
Interest and rents	-	-	-	-
Other	-	-	-	-
Total revenues	72,093,476	72,731,954	77,849,478	5,117,524
Expenditures:				
Personnel	12,256,248	13,129,089	13,626,854	(497,765)
Fringe benefits	4,294,698	4,446,592	4,644,256	(197,664)
Pension	1,115,814	1,199,141	948,318	250,823
Materials and supplies	522,300	540,293	540,691	(398)
Contractual services	129,726,004	130,959,388	143,249,300	(12,289,912)
Travel	62,800	104,800	123,515	(18,715)
Operating	121,130	130,977	112,270	18,707
Rentals	3,926,717	3,936,717	4,016,633	(79,916)
Other charges	10,300	7,800	12,212	(4,412)
Capital outlay	61,000	91,000	55,856	35,164
Debt service	-	-	-	-
Total expenditures	152,097,011	154,545,797	167,329,885	(12,784,088)
Revenues under expenditures	(80,003,535)	(81,813,843)	(89,480,407)	(7,666,564)
Other financing sources (uses):				
Transfers in	80,003,535	81,813,843	89,449,824	7,635,981
Transfers out	-	-	-	-
Proceeds from capital leases	-	-	-	-
Other financing sources	-	-	-	-
Total other financing sources	80,003,535	81,813,843	89,449,824	7,635,981
Operating revenues and other sources under expenditures and other uses	-	-	(30,583)	(30,583)
fund balance at October 1, 2001	30,583	30,583	30,583	-
fund balance at September 30, 2002	\$ 30,583	30,583	-	(30,583)

See accompanying note to required supplementary information.

CHARTER COUNTY OF WAYNE, MICHIGAN
Notes to Required Supplementary Information
For the year ended September 30, 2002

(1) Budgets and Budgetary Accounting

Annual budgets are adopted for the General Fund, special revenue funds, debt service funds and for certain other governmental and proprietary activities. Budgetary schedules included as required supplementary information and as supplementary information were prepared on the same modified accrual basis used to reflect actual results.

The County Executive prepares and submits a proposed operating budget during June of each year to the Wayne County Commission (the Commission) for the year beginning October 1. After public hearings to obtain taxpayers' comments, the budget is legally enacted through passage of an ordinance by the Commission (the Appropriations Ordinance). The appropriated budget for the General Fund is adopted by function (general government, public safety, public works, etc.) and by activity, generally. The legal level of budgetary control for the special revenue funds and the debt service funds is at the fund level.

Amendments to appropriations that change the County's appropriations ordinance require the approval of the Commission. Certain transfers within line items that do not affect aggregate departmental appropriations may be made without the Commission's approval. Expenditures are required to remain within appropriated amounts. All appropriations lapse at the end of the fiscal year. The Budgetary Comparison Statement is presented at the minimum legal level of budgetary control.

The Commission approved several significant amendments during the year, including \$23 million for the Department of Public Services (Roads Fund); \$15.6 million for the Department of Jobs and Economic Development (the Pinnacle Aeropark and the Community Development Block Grant Funds); \$14.1 million for the Department of Health & Community Services (Mental Health Fund); \$12 million for the Circuit Court; \$8.1 million for the Budget Stabilization Fund; and \$6.5 million for the Department of Public Services (Parks Fund).

For budgetary purposes at year end, encumbrances of the budgeted governmental funds, representing purchase orders, contracts and other commitments, lapse and must be re-appropriated in the following year. All unencumbered appropriations lapse at the end of the year, except for capital projects fund appropriations, which are carried forward until such time as the project is completed or terminated.

APPENDIX IV

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution, as amended, and the Supplemental Resolution and does not purport to be complete. Reference is made to the Resolution and the Supplemental Resolution, copies of which are available from the Authority.

Definitions

The following are definitions of certain of the terms used in the Resolution and this Official Statement. Capitalized terms appearing in this Official Statement and not specifically defined herein have the meaning given to such terms in the Resolution.

"AMBAC Assurance" means AMBAC Assurance Corporation, a Wisconsin domiciled stock insurance company.

"AMBAC Insurance Policy" means a Financial Guaranty Insurance Policy issued by AMBAC Assurance insuring the payment when due of the principal of and interest on any Bonds as provided therein.

"AMBAC Insurance Program Municipal Obligations" means Municipal Obligations purchased with the proceeds of AMBAC Insured Bonds.

"AMBAC Insured Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority's interest in AMBAC Insurance Program Municipal Obligations and with respect to which an AMBAC Insurance Policy has been issued.

"Act" means the Shared Credit Rating Act, Act No. 227 of the Public Acts of 1985 of the State, as from time to time amended.

"Act 140" means the State Revenue Sharing Act of 1971, Act No. 140 of the Public Acts of 1971 of the State, as from time to time amended.

"Authority" means the Michigan Municipal Bond Authority created by the Act or any board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Authority by the Act shall be given by law.

"Authorized Denomination" means \$5,000, and integral multiples thereof or such other denominations which shall be specified in a Supplemental Resolution.

"Authorized Officer" means any member of the Authority, the Executive Director of the Authority, or any other officer or employee of the Authority authorized by resolution of the Authority to perform the act or sign the document in question.

"Available Amount" means for Mandatory Purchase Bonds the amount on deposit in the Revenue Sharing Bond Account of the Revenue Fund not required to pay interest on or to pay the principal at maturity or the Redemption Price of Bonds, and which an Authorized Officer of the Authority directs to be used for the payment of the principal portion of the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date, notice of which shall have been given to the Remarketing Agent by the Authority.

"Bond Counsel" means Miller, Canfield, Paddock and Stone and its successors.

"Bondholder" or **"Owner"** or **"Holder"** or **"Holder of Bonds"** or **"Owner of Bonds"** means the registered owner of any Bond.

"Bonds" means the Authority's Local Government Loan Program Revenue Bonds issued pursuant to the Resolution and Supplemental Resolutions.

"Bond Registrar and Paying Agent" means with respect to any Bond the Bond Registrar and Paying Agent appointed as such by a Supplemental Resolution and any successor thereto, and the Co-Paying Agent to the extent that the Bond Registrar and Paying Agent has delegated responsibilities under this Bond Resolution to the Co-Paying Agent.

"Business Day" means each weekday on which commercial banking institutions in the State and in the State of New York are not required or authorized by law or executive order to remain closed, and on which the New York Stock Exchange, Inc. is not closed.

"Capital Appreciation Bonds" means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery, which interest is compounded semi-annually on each June 1 and December 1 or such other dates as may be specified by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bonds, until paid at the maturity thereof.

"Capital Guaranty" means Capital Guaranty Insurance Company, a stock insurance company incorporated in the State of Maryland, or any successor thereto.

"Capital Guaranty Insurance Program Municipal Obligations" means Municipal Obligations purchased with the proceeds of Capital Guaranty Insured Bonds.

"Capital Guaranty Insured Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority's interest in Capital Guaranty Insurance Program Municipal Obligations and with respect to which a Financial Guaranty Bond has been issued.

"Code" means the Internal Revenue Code of 1986, as amended from time to time and any successor provision, act or statute, and the regulations from time to time promulgated or proposed thereunder.

"Collateral Documents" means such documents as may be required, and so designated by the Authority in a Supplemental Resolution, from a Governmental Unit, its incorporating or establishing municipality or other entity designated in a Supplemental Resolution, including without limitation if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, or a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the incorporating or establishing municipality in connection with the purchase by the Authority of Municipal Obligations, including with respect to Revenue Sharing Municipal Obligations and MBIA Insured Revenue Sharing Municipal Obligations, without limitation, the Revenue Sharing Pledge Agreement.

"Commencement Date" means the date when the term of the Municipal Obligation begins and the obligation of the Governmental Unit to make Loan Repayments accrues.

"Compound Accreted Value" means with respect to each Capital Appreciation Bond, as of the date of computation an amount equal to the principal amount of each Capital Appreciation Bond plus interest accrued and compounded on such Capital Appreciation Bond from its dated date to the June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) immediately preceding the date of computation or to the date of computation if a June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond), as set forth in schedules of the Compound Accreted Value per \$1,000 (or \$5,000) maturity amount of each Capital Appreciation Bond on each June 1 or December 1 (or such other date or dates as may be specified by Supplemental Resolution or by an Authorized Officer of the Authority on or prior to the issuance of such Capital Appreciation Bond) prepared by an Authorized Officer of the Authority.

"Co-Paying Agent" means with respect to any Bond the Co-Paying Agent, if any, appointed as such by a Supplemental Resolution and any successor thereto.

"Costs of Issuance" means any administrative costs of the Authority or items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale, and issuance of the Bonds, which items of expense shall include, but not be limited to, underwriters' fees, printing costs, cost of reproducing documents, filing and recording fees, initial fees and charges of a Trustee, the initial fees of any liquidity facility issuer, if any, and fees or premiums of any credit facility issuer, if any, costs and expenses of verification agents, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, and the Authority, legal fees and charges, professional consultants' fees, financial advisors' fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, the cost of any Reserve Account Security Instrument and other costs, charges and fees in connection with the foregoing, or designated as such in a Supplemental Resolution, and any other items of expense authorized by the Act.

"Cost of Issuance Agreement" means the agreements, if any, between the Authority and the Governmental Units regarding the payment or reimbursement of the Authority's Costs of Issuance.

"Costs of Issuance Fund" means the Costs of Issuance Fund established and so designated by the Resolution.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state.

"Current Interest Bonds" means the Bonds so designated by an Authorized Officer of the Authority which bear interest from their date of issuance and delivery payable semi-annually on such dates as may be specified by an Authorized Officer of the Authority prior to the issuance of such Current Interest Bonds.

"Depository" means with respect to any Bond the Trustee or such other Depository (including without limitation the State Treasurer) appointed as such by a Supplemental Resolution.

"Distributable Aid" means the payments that a Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive from the State under Act 140 and which may otherwise be lawfully pledged as security for Municipal Obligations.

"Distributable Aid Ratio" means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of Distributable Aid that the Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive in such annual period, to the estimated maximum annual principal and interest requirements for the Municipal Obligation, expressed as a decimal equivalent.

"Distributable Sales Tax Ratio" means, with respect to any Governmental Unit and annual distribution period under Act 140, the ratio of the amount of all payments of state sales tax revenues that the Governmental Unit or, if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality is eligible to receive under Act 140 in such annual period to the estimated maximum annual principal and interest requirements for the Municipal Obligation expressed as a decimal equivalent.

"Eligible Investment" means, except as otherwise provided in a Supplemental Resolution, such of the following as shall mature, or shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the moneys will be required for the purposes intended: (i) Governmental Obligations, (ii) certificates of deposit issued by any bank or trust company whose deposits are insured by the Federal Deposit Insurance Corporation, provided that such certificates of deposit shall be secured by Governmental Obligations with a market value equal to the principal amount thereof over the amount guaranteed by the Federal Deposit Insurance Corporation, (iii) debentures or notes issued by any of the following Federal agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Loan Banks, Export-Import Bank of the United States, Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or, Federal Home Loan Banks, Federal Land Banks (including participation certificates issued by such agencies) and all other obligations issued or in the opinion of the Attorney General of the United States unconditionally guaranteed as to principal and interest by any agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by the Congress, (iv) an Investment Agreement, (v) obligations the interest on which is excluded from gross income for purposes of federal income tax under the Code and, which have received from all Rating Agencies rating the Bonds, a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, (vi) commercial paper that has received from all Rating Agencies rating the Bonds, a rating at least as high as the rating on any Bonds secured by such investment, (vii) any other investment permitted by Act and approved by resolution of the Authority which has received from all Rating Agencies rating the Bonds a rating in a Rating Category at least as high as the rating on any Bonds secured by such investment, and (viii) with respect to the AMBAC Insured Bond Account within the Revenue Fund, any investment which is legal for the Authority and which has been approved in writing by AMBAC Assurance.

"Event of Default" means an Event of Default specified under the Resolution.

"Excess Funds" means with respect to the Revenue Account for each Type of Bonds the amount by which the funds on deposit therein exceeds the amount required for the purposes of the Resolution (including future payments of principal and interest on the Bonds of such Type), as certified by an Authorized Officer of the Authority.

"Fees and Charges" means all fees and charges collected by the Authority in connection with Municipal Obligations purchased pursuant to the Resolution.

"Financial Guaranty Bond" means a financial guaranty bond issued by Capital Guaranty.

"Fully Marketable Form" means, with respect to a Municipal Obligation, that such Municipal Obligation has been duly executed and is accompanied by all of the following: (i) an approving legal opinion of a bond counsel approved by the Authority and of nationally recognized standing in the field of municipal law, (ii) closing documents in form and substance satisfactory to the Authority, (iii) evidence that the pledge for payment of the Municipal Obligation will be sufficient to pay the principal of and interest on the Municipal Obligation when due, and (iv) an order of approval or an order of exception issued by the Department of Treasury under the Municipal Finance Act, Act No. 202 of the Public Acts of 1943, being sections 131.1 to 139.3 of the Michigan Compiled Laws, which orders shall also include a certification that the condition of clause (iii) has been met; provided that, if the definition of Fully Marketable Form in the Act is changed or supplanted, Fully Marketable Form shall have the same meaning under the Resolution as in the Act.

"Government Obligations" means, except as otherwise provided in a Supplemental Resolution, direct general obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Governmental Unit" means a "governmental unit" as defined in the Act which qualifies as "a governmental unit within the meaning of Section 103(b)(3)(a) of the Internal Revenue Code of 1954, as amended, and Sections 141(b)(6)(A) and 141(c)(1) of the Code and, if the context so requires, which has been received a Loan from the Authority from the proceeds of the Bonds.

"Group" shall have the meaning, if any, given in a Supplemental Resolution.

"Interest Payment Date" means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern): (i) with respect to the Transportation Fund Bonds the first February 1 or August 1 which occurs at least 3 months after the original issue date of such Bond, and each February 1 and August 1 thereafter, and (ii) with respect to all other Bonds the first May 1 or November 1 which occurs at least 3 months after the original issue date of such Bond and each May 1 and November 1 thereafter.

"Interest Period" means except as otherwise provided in any Supplemental Resolution, with respect to any Mandatory Purchase Bond, each period during which the interest rate on such Bond is not subject to change in accordance with the provisions of the Resolution, which shall be determined as provided in the Resolution.

"Investment Agreement" means any agreement for the investment of funds held under the terms of the Resolution which will not result in a reduction or withdrawal of any existing rating on any of the Bonds.

"Liquidation Proceeds" means amounts received by the Authority in connection with enforcement of any of the remedies under a Municipal Obligation or Collateral Document after the occurrence of a default which has not been waived or cured.

"Loan" means a loan made by the Authority to a Governmental Unit pursuant to the provisions of the Resolution or a Supplemental Resolution.

"Loan Account" means with respect to each Type of Bonds the Loan Account, for such Type of Bonds within the Loan Fund established and so designated by the Resolution or a Supplemental Resolution.

"Loan Fund" means the Loan Fund established and so designated by the Resolution.

"Loan Repayments" means the payments of principal of and interest on a Municipal Obligation and any other amounts payable by a Governmental Unit pursuant to its Municipal Obligation.

"Local Project Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority of one or more Types (each Local Project Bond to be of a Type so designated by such Authorized Officer), the Bonds of each such Type being secured by a pledge of the Authority's interest in one or more Local Project Municipal Obligations.

"Local Project Municipal Obligations" means Municipal Obligations so designated from time to time by an Authorized Officer of the Authority.

"Local Project Bond Reserve Account" means with respect to each Type of Local Project Bonds the account or accounts within the Reserve Fund established and so designated by the Resolution, by a Supplemental Resolution or by an Authorized Officer for each Type of Local Project Bond, if any.

"MBIA" means the Municipal Bond Investors Assurance Corporation and its successors.

"MBIA Insurance Program Revenue Sharing Municipal Obligations" means Municipal Obligations purchased with the proceeds of MBIA Insured Revenue Sharing Bonds.

"MBIA Insured Revenue Sharing Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority, secured by a pledge of the Authority's interest in MBIA Insurance Program Revenue Sharing Municipal Obligations, and with respect to which a Municipal Bond Guaranty Insurance Policy has been issued.

"MBIA Insured Revenue Sharing Bond Reserve Account" means the account within the Reserve Fund established and so designated by the Resolution, if any.

"Mandatory Purchase Bonds" means Revenue Sharing Bonds so designated by an Authorized Officer of the Authority.

"Mandatory Purchase Date" means, except to the extent otherwise provided in any Supplemental Resolution, (in which case such provision shall govern), and exclusive of the maturity date, the last day of any Interest Period.

"Mandatory Purchase Notice" means the notice of any Mandatory Purchase Date required to be given by the Bond Registrar and Paying Agent pursuant hereto.

"Mandatory Redemption" shall mean any mandatory redemption made pursuant to the Resolution.

"Michigan School Bus Program Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in the Michigan School Bus Program Municipal Obligations.

"Michigan School Bus Program Municipal Obligations" means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit's School Aid pursuant to a School Aid Pledge Agreement.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

"Municipal Obligation" means an obligation of a Governmental Unit purchased by the Authority with proceeds of the Bonds.

"Municipal Obligation Closing Date" means, with respect to any Municipal Obligation, the date on which such Municipal Obligation is purchased by the Authority, which date shall be specified in writing by an Authorized Officer of the Authority.

"Non-Arbitrage And Tax Compliance Certificate" means a Non-Arbitrage And Tax Compliance Certificate executed by an Authorized Officer of the Authority relating to the use of the proceeds of the Bonds and compliance with the applicable provisions of the Code and regulations promulgated thereunder. It is anticipated that a separate Non-Arbitrage And Tax Compliance Certificate may be executed with respect to each Group or Series of Bonds. All Non-Arbitrage And Tax Compliance Certificates executed by an Authorized Officer of the Authority with respect to any Bond, as such certificates may be amended or supplemented from time to time are collectively referred to as the "Non-Arbitrage And Tax Compliance Certificate".

"Notice of Election to Retain" means a notice of election to retain Mandatory Purchase Bonds given by the Owner thereof prior to a Mandatory Purchase Date pursuant to the Resolution.

"Notice Parties" means the Authority, the Trustee, the Bond Registrar and Paying Agent, the Co-Paying Agent, the Depository, MBIA with respect to MBIA Insured Revenue Sharing Bonds and Capital Guaranty with respect to the Capital Guaranty Insured Bonds and any other party so designated by a Supplemental Resolution.

"Original Issue Date" means with respect to each Bond the date on which the Bond is delivered to the original purchasers thereof or other date specified in a Supplemental Resolution.

"Outstanding Bonds" or **"Bonds Outstanding"** means all Bonds which have been authenticated and delivered by the Bond Registrar and Paying Agent under the Resolution or a Supplemental Resolution, except:

- (a) Bonds canceled after purchase in the open market because of payment;
- (b) Bonds deemed paid under the Resolution; and
- (c) Bonds in lieu of which other Bonds have been authenticated under the Resolution.

"Pledge Agreement" or **"School Aid Pledge Agreement"** means a pledge agreement between a Governmental Unit and the Authority regarding the pledge and payment of a Governmental Unit's school aid pursuant to section 17a of Act 94 of the Public Acts of Michigan of 1979, as amended.

"Pledged Funds" means and includes with respect to each Type of Bond, the appropriate accounts within the Loan Fund, the Reserve Fund, the Revenue Fund, and all moneys, instruments, and investments from time to time therein. Pledged Funds does not include the Rebate Fund or the Cost of Issuance Fund.

"Preliminary Rate Determination Date" means the Business Day selected by the Remarketing Agent which is at least three Business Days prior to any Mandatory Purchase Date.

"Purchase Amount" means with respect to any Mandatory Purchase Date the aggregate principal amount of Mandatory Purchase Bonds subject to mandatory purchase on such date and for which no Notice of Election to Retain has been given.

"Qualified School Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in the Qualified School Municipal Obligations.

"Qualified School Municipal Obligations" means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the State Constitution and Act No. 108 of the Public Acts of 1961 of the State, as from time to time amended.

"Rate Determination Date" means, with respect to any Interest Period for any Bond the Business Day selected by the Remarketing Agent and acceptable to the Authority, that is not fewer than one nor more than 20 Business Days prior to the first day of such Interest Period and at least one Business Day after the last day on which a Notice of Election to Retain may be given by any Owner of a Bond to which such Interest Period applies.

"Rate Indication" shall have the meaning given to such term in the Resolution.

"Rating Agency" means Moody's or S&P or such other Rating Agency so designated in a Supplemental Resolution.

"Rating Category" means one of the generic rating categories of Moody's or S&P or other Rating Agency without regard to any refinement or graduation of such rating category by a numerical modifier or otherwise.

"Rebate Fund" means the special fund so designated and established by the Resolution.

"Rebate Payments" means the payments required to be deposited to the credit of the Rebate Fund pursuant to the Non-Arbitrage and Tax Compliance Certificate.

"Record Date" means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in a Supplemental Resolution.

"Redemption Price" means, with respect to any Bond or any portion thereof, the principal amount of such Bond or such portion thereof and any premium thereon payable upon redemption thereof pursuant to the Resolution or a Supplemental Resolution.

"Remarketing Agent" means the remarketing agent or agents for any Bonds appointed by the Supplemental Resolution authorizing such Bonds and any replacement, successor or additional remarketing agent or agents appointed from time to time by the Authority.

"Remarketing Agreement" means any Remarketing Agreement for the bonds entered into by the Authority and a Remarketing Agent as amended, modified or supplemented from time to time.

"Remarketing Amount" means with respect to any Mandatory Purchase Date, the Purchase Amount minus the Available Amount.

"Reserve Account" means, with respect to each Type of Bonds, the Reserve Account, if any, for such Type of Bonds, within the Reserve Fund, established and so designated by the Resolution or a Supplemental Resolution. No Reserve Account has been established for Transportation Fund Bonds, Qualified School Bonds or Capital Guaranty Insured Bonds.

"Reserve Account Requirement" means (unless a different Reserve Account Requirement is established with respect to such Type of Bonds by a Supplemental Resolution) with respect to each Type of Bonds for which a reserve account is established, the maximum annual principal and interest requirement (for the then current or any subsequent year) on all Bonds of such Type from time to time Outstanding; provided, that such Requirement shall not exceed the lower of 125% of the average annual principal and interest requirements on such Bonds or 10% of the net proceeds of such Bonds; and provided further, that for Bonds other than Bonds bearing interest at rates fixed until their maturity or mandatory redemption dates, annual interest requirements shall be estimated by using the weighted average of the interest rates for Bonds of such Type for which the interest rates are so fixed, if any, or by such other method as shall be provided in a Supplemental Resolution. The Reserve Account Requirement for any Reserve Account may be satisfied by delivery to the Trustee of a Reserve Account Security Instrument. Notwithstanding the foregoing, the Authority in a Supplemental Resolution may reduce or eliminate the Reserve Account Requirement with respect to any Type or Types of Bond at any time if such reduction or elimination would not result in the reduction or withdrawal of any rating applicable to such Bonds, and in such event such Reserve Account Requirement shall be deemed to be so reduced or eliminated.

"Reserve Account Security Instrument" means a letter of credit, line of credit, policy of insurance, surety bond or similar instrument which will provide for the payment of all or part of the amounts required to be disbursed from a Reserve Account; provided that the Reserve Account Security Instrument shall not result in a reduction of any rating on the Bonds.

"Reserve Fund" means the Reserve Fund (including therein the Revenue Sharing Bond Reserve Account, the Local Project Bond Reserve Accounts, and the MBIA Insured Revenue Sharing Bond Reserve Account and any other Reserve Accounts established by a Supplemental Resolution) and so designated by the Resolution.

"Resolution" means the Bond Resolution of the Authority adopted and so designated by the Authority, as the same may be supplemented or amended pursuant to the terms thereof.

"Revenue Fund" means the fund established and so designated by the Resolution.

"Revenue Sharing Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by the pledge of the Authority's interest in the Revenue Sharing Municipal Obligations. Revenue Sharing Bonds does not include MBIA Insured Revenue Sharing Bonds.

"Revenue Sharing Bonds Reserve Account" means the account established and so designated by the Resolution.

"Revenue Sharing Municipal Obligations" means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit's Distributable Aid, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, a pledge of the incorporating municipality's Distributable Aid, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, a pledge of the establishing municipality's Distributable Aid. Revenue Sharing Municipal Obligations does not include MBIA Insurance Program Revenue Sharing Municipal Obligations.

"Revenue Sharing Pledge Agreement" means the Revenue Sharing Pledge Agreement between a Governmental Unit, or if such Governmental Unit is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, the incorporating municipality, or if such Governmental Unit is a tax increment finance authority created pursuant to Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority created pursuant to Act 281, Michigan Public Acts of 1986, as amended, the establishing municipality, and the Authority regarding the pledge and payment of a Governmental Unit's, or Incorporating municipality's or establishing municipality's, Distributable Aid.

"Revenues" means all income derived for the period for which the calculation is being made by or for the account of the Authority from the Municipal Obligations or under the Resolution, including (i) Loan Repayments, (ii) Liquidation Proceeds, and (iii) income from the investment of all funds and accounts created by or pursuant to the Resolution.

"S&P" means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

"School Program Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in School Program Municipal Obligations.

"School Program Municipal Obligations" means Municipal Obligations so designated by an Authorized Officer of the Authority, secured in part by a pledge of the Governmental Unit's school aid pursuant to a School Aid Pledge Agreement.

"Security" means the Pledged Funds, and other funds, properties and rights of the Authority described in the Resolution as security for the payment of the Bonds.

"Serial Bonds" means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

"Series of Bonds" or **"Bonds of a Series"** means a Series of Bonds, if any, authorized and so designated by or pursuant to a Supplemental Resolution.

"State" means the State of Michigan.

"State Qualified School Bonds" means Bonds so designated by an Authorized Officer of the Authority secured by a pledge of the Authority's interest in the State Qualified School Municipal Obligations.

"State Qualified School Municipal Obligations" means Municipal Obligations fully qualified for participation in the State School Bond Loan Fund pursuant to the provisions of Article IX, Section 16 of the

State Constitution and Act No. 108 of the Public Acts of 1961 of the State ("Act 108"), as from time to time amended, and which are purchased with proceeds of State Qualified School Bonds.

"State Treasurer" means the Treasurer of the State.

"Supplemental Resolution" means a resolution supplemental to or amendatory to the Resolution, adopted by the Authority in accordance with the Resolution.

"Term Bonds" means Bonds so designated in or pursuant to a Supplemental Resolution authorizing their issuance.

"Transportation Fund Bonds" means Bonds so designated from time to time by an Authorized Officer of the Authority and secured by a pledge of the Authority's interest in the Transportation Fund Municipal Obligations.

"Transportation Fund Municipal Obligations" means Municipal Obligations secured in part by a pledge of a Governmental Unit's State Transportation Fund or Motor Vehicle Highway Fund revenues and issued pursuant to Act 143 of the Public Acts of Michigan of 1943, Act 51 of the Public Acts of Michigan of 1951, or Act 175 of the Public acts of Michigan of 1952, all as from time to time amended.

"Trustee" shall mean, with respect to each Type of Bond, the Trustee appointed in a Supplemental Resolution. and its respective successor.

"Type" means, with respect to any Bond, the category of Bonds including such Bond that is equally and ratably secured with each other under the Resolution. The Types of Bonds authorized to be issued under the Resolution are Qualified School Bonds, Revenue Sharing Bonds, Transportation Fund Bonds, AMBAC Insured Bonds, Capital Guaranty Insured Bonds, MBIA Insured Revenue Sharing Bonds, Michigan School Bus Program Bonds, Revenue Sharing Bonds, School Program Bonds, Transportation Fund Bonds, and separately designated Types of Local Project Bonds, each such separately designated Type of Local Project Bonds to constitute a Type. Serial or Group designations for Bonds may be made in the Supplemental Resolution authorizing the issuance of the Bonds. Additional Types of Bonds may be authorized to be issued by a Supplemental Resolution. "Type" means with respect to any Municipal Obligation the Type designated of the corresponding Bonds.

Pledge and Establishment of Funds and Accounts

Pledge

The Pledged Funds with respect to each Type of Bonds under the Resolution, including the moneys deposited therein, investments thereof and the proceeds of such investments, if any, are pledged to the Trustee for such Type of Bonds for the payment of the principal of, and interest on, each Type of Bonds in accordance with the terms and provisions of the Resolution. This pledge shall be valid and binding from and after the date of adoption of the Resolution and the Pledged Funds shall immediately be subject to the lien of such pledge without any physical delivery thereof, recordation of the Resolution, or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

Any amounts deposited into the Costs of Issuance Fund and the Rebate Fund, are not Pledged Funds and the Holders of Bonds shall not have any lien thereon.

Establishment of Funds

The following special funds and accounts shall be established, maintained and held by the Trustee, the Authority or the Depository pursuant to the provisions of the Resolution:

(1) Revenue Fund -- Michigan Municipal Bond Authority, Local Government Loan Program; and within the Revenue Fund separate accounts designated as the Qualified School Bond Account, one or more Local Project Bond Accounts (each to be separately designated by the Executive Director of the Authority from time to time for each separately designated Type of Local Project Bonds), the Transportation Fund Bond Account, the School Program Bond Account, the Michigan School Bus Program Account, the MBIA Insured Revenue Sharing Bond Account, the Capital Guaranty Insured Bond Account, the Revenue Sharing Bond Account, the AMBAC Insured Bond Account, the State Qualified School Bond Account and such additional accounts as shall be created by Supplemental Resolution. The Revenue Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of an Authorized Officer of the Authority, by the Depository.

(2) Loan Fund -- Michigan Municipal Bond Authority, Local Government Loan Program; and within the Loan Fund separate accounts designated as the Qualified School Bond Loan Account, one or more Local Project Bond Accounts (each to be separately designated by an Authorized Officer of the Authority from time to time for each separately designated Type of Local Project Bonds), the Transportation Fund Bond Loan Account, the Michigan School Bus Program Bond Loan Account, the School Program Bond Loan Account, the MBIA Insured Revenue Sharing Bond Loan Account, the Capital Guaranty Insured Bond Loan Account, the Revenue Sharing Bond Loan Account, the AMBAC Insured Loan Account, the State Qualified School Bond Loan Account and such additional accounts as shall be created by Supplemental Resolution. The Loan Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(3) Costs of Issuance Fund -- Michigan Municipal Bond Authority, Local Government Loan Program. The Costs of Issuance Fund shall be held by the Authority, or at the written direction of the Authority, by the Depository, or the Trustee.

(4) Reserve Fund -- Michigan Municipal Bond Authority Local Government Loan Program; and within the Reserve Fund separate accounts designated as the Revenue Sharing Bond Reserve Account, the MBIA Insured Revenue Sharing Bond Reserve Account, and one or more Local Project Bond Reserve Accounts (to be separately designated by an Authorized Officer of the Authority from time to time for each Type of Local Project Bonds). The Reserve Fund and all accounts therein shall be held in trust by the Trustee, or at the written direction of the Authority, by the Depository.

(5) Rebate Fund -- Michigan Municipal Bond Authority, Local Government Loan Program; and within the Rebate Fund separate accounts designated by a Supplemental Resolution or by a Non-Arbitrage and Tax Compliance Certificate. The Rebate Fund and all accounts therein shall be held by the Authority or at the written direction of the Authority, by the Depository, or the Trustee.

An Authorized Officer of the Authority is authorized by the Resolution to establish and maintain such other accounts and subaccounts in the aforesaid funds and accounts as may be necessary, convenient or required to provide for the Authority's compliance with the covenants of the Authority described below under "Covenants of the Authority."

The Executive Director is authorized to direct the Trustee or the Depository in writing to close any fund, account or subaccount established by or pursuant to the Resolution to the extent such fund, account or subaccount is determined by the Executive Director to be unnecessary and thereafter to reopen and reclose such fund, account or subaccount as the Executive Director shall determine.

Application of Bond Proceeds

The net proceeds of each Series of Bonds shall be deposited by the Authority as follows:

(a) In the Revenue Fund, to the credit of the appropriate account, amounts received as accrued interest, if any, on the corresponding Type of Bonds and amounts specified by an Authorized Officer of the Authority to provide for payment of capitalized interest on Bonds; and

(b) In the Costs of Issuance Fund, the sum specified by an Authorized Officer of the Authority; and

(c) In the Loan Fund, to the credit of the appropriate account, the balance of the proceeds received from the sale of such Series of Bonds; and

(d) In the Reserve Fund, to the credit of the appropriate account, amounts equal to the Reserve Account Requirement or sufficient to purchase a Reserve Account Security Instrument.

Loan Fund

(a) Moneys in each Loan Account of the Loan Fund shall be transferred to the corresponding Reserve Account, if any, to the extent required by the Resolution and shall be disbursed to Governmental Units upon the purchase by the Authority of Municipal Obligations from Governmental Units. Such transfers and disbursements shall be made by the Authority, or by the Trustee or the Depository only upon the written direction of an Authorized Officer of the Authority; and

(b) All earnings on moneys in any Loan Account of the Loan Fund shall be transferred, as received, to the Revenue Fund, the Costs of Issuance Fund or remain in the Loan Fund as directed in writing by the Authority as received.

Costs of Issuance Fund

Bond proceeds including moneys in the Costs of Issuance Fund, shall be used to pay the Costs of Issuance or to the extent not needed for such purpose transferred to the Revenue Fund pursuant to the written direction of an Authorized Officer of the Authority.

Revenue Fund

All Loan Repayments, moneys transferred from the Loan Fund to provide for payment of capitalized interest on Bonds, Fees and Charges and Liquidation Proceeds held or collected by or on behalf of the Authority shall be deposited upon receipt in the appropriate account of the Revenue Fund as directed in writing by an Authorized Officer of the Authority. There shall also be deposited in the appropriate account of the Revenue Fund any other moneys made available by the Authority for the purposes of such account from any other source. Moneys (including the proceeds of sale of Investments) from time to time in the Revenue Fund shall be paid out and applied in the following order of priority; provided, however that in each case only amounts on deposit in the account established for a particular Type of Bond shall be used to make payments

with respect to such Type of Bonds or transfers to the Reserve Account established for such Type of Bond, and only moneys on deposit in the account corresponding to Bonds of each Type shall be used to make payments with respect to such Bonds or transfers to the Reserve Account of the Reserve Fund corresponding to such Type of Bonds:

(1) At such times as are necessary, to pay the principal of and interest and redemption premium, if any, on any Bonds when due, whether at maturity or upon redemption, redeemed pursuant to the Resolution;

(2) At such times as are necessary to: (i) pay the fees and expenses of the Trustee, the Authority (including costs of issuing Bonds if insufficient amounts are on hand in the Costs of Issuance Fund), the Bond Registrar and Paying Agent, the Co-Paying Agent, the issuer of any Reserve Account Security Instrument, the financial advisors to the Authority and any transfer agent, co-paying agent or independent accountants employed to provide or verify cash flow projections and (ii) any rebate required under the Resolution; provided that an Authorized Officer may authorize the payment of any such fees or expenses prior to the payment of principal or interest on the Bonds;

(3) At such times as are necessary, to reimburse the Reserve Accounts in amounts sufficient to maintain the Reserve Account Requirements or reimburse the issuers of Reserve Account Security Instruments;

(4) Not more often than semiannually, to the extent certified by an Authorized Officer of the Authority as Excess Funds, to the Authority free and clear of the lien of the Resolution, provided however that notwithstanding the foregoing or any other provision of this Bond Resolution Excess Funds may be paid out and applied as otherwise provided in a Supplemental Resolution and provided further, however, that notwithstanding the foregoing or any other provision of the Resolution, Excess Funds in accounts for Bonds with respect to which MBIA has issued a Reserve Account Security Instrument or a Municipal Bond Guaranty Insurance Policy shall first be paid to MBIA to the extent of any reimbursement obligation owing to MBIA thereunder, and Excess Funds in accounts for Bonds with respect to which AMBAC Assurance has issued an AMBAC Insurance Policy shall first be paid to AMBAC Assurance to the extent of any reimbursement obligation owing to AMBAC Assurance thereunder.

Notwithstanding the foregoing, moneys and investments in the Revenue Fund which have been allocated to the redemption of Bonds as to which notice of redemption has been given in accordance with the requirement of the Resolution shall be applied only to such redemption in accordance with the requirements of the Resolution.

In the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been transferred from a Reserve Account to account for such untimely payment, such payment on a Municipal Obligation up to the amount so transferred shall be deposited in the appropriate Reserve Account to the extent necessary to increase the amount on deposit in such Reserve Account to the Reserve Account Requirement for such Reserve Account, and provided further that notwithstanding any provision of the Resolution in the event a payment on a Municipal Obligation is received and deposited into the Revenue Fund and due to the untimeliness of its tendering, moneys have previously been paid from a Reserve Account Security Instrument to account for such untimely payment, such payment on a Municipal Obligation shall immediately be deposited directly in any account for which a Reserve Account Security Instrument has been issued, as applicable, to the extent necessary to fully reimburse the Issuer.

Reserve Fund

There shall be deposited in and credited to the Reserve Accounts all moneys transferred from the Revenue Fund as described above under "The Revenue Fund".

Amounts in the Reserve Fund shall be paid out and applied by the Authority, the Trustee or the Depository solely to pay the items enumerated in paragraphs (1), (2), (but only to the extent of any rebate required by the Resolution), and (4) above under "The Revenue Fund" in that order of priority, to the extent insufficient amounts are available to pay such items in the Revenue Fund, provided that the Trustee shall pay, and is authorized to pay, to the extent of any reimbursement obligation owing to the issuer of any Reserve Account Security Instrument securing any Bonds, all moneys in the Reserve Account for such Bonds directly to the issuer of the applicable Reserve Account Security Instrument. Any earnings on moneys deposited in the Reserve Fund shall, to the extent such earnings cause the amount credited to the Reserve Fund to exceed the applicable Reserve Account Requirement, be transferred as received to the Revenue Fund; provided, however, that amounts on deposit in each Reserve Account shall be transferred and applied only with respect to the corresponding Type of Bonds, and amounts on deposit in the MBIA Insured Revenue Sharing Bond Reserve Account shall be transferred and applied for the purposes enumerated in paragraph 2 above under "The Revenue Fund" only with the consent of MBIA. Notwithstanding any other provision of the Resolution, the delivery of a Reserve Account Security Instrument as replacement for an existing cash deposit in any Reserve Account is authorized. The Trustee is hereby authorized and directed (i) to deliver a demand for payment under any Reserve Account Security Instrument issued by MBIA in accordance with the terms of such Reserve Account Security Instrument at least one day prior to the date on which funds are required to be paid under such Reserve Account Security Instrument, and (ii) to maintain adequate records (such records to be verified to the Trustee by MBIA) as to the amount available to be drawn at any given time under each Reserve Account Security Instrument issued by MBIA and held by the Trustee, and as to the amounts of any reimbursement obligation thereunder, or under the financial guaranty insurance agreement between MBIA and the Authority, paid and owing to MBIA.

Revenue Sharing Pledge Agreements or Pledge Agreements

The Authority shall cause the State Treasurer to agree, pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement, to immediately transfer to the appropriate Bond Account of the Revenue Fund, available Distributable Aid (including in the case of a Governmental Unit which is a building authority incorporated under Act 31, Michigan Public Acts of 1948 (First Extra Session), as amended, available Distributable Aid of the incorporating municipality, and in the case of a Governmental Unit which is a tax increment finance authority established under Act 450, Michigan Public Acts of 1980, as amended, or a local development finance authority established under Act 281, Michigan Public Acts of 1986, as amended, available Distributable Aid of the establishing municipality) or state school aid, respectively, with respect to a Governmental Unit which has failed to pay any Loan Repayment when due under the applicable Municipal Obligation, and thereafter to continue to make such transfers to the extent provided by such Revenue Sharing Pledge Agreement or Pledge Agreement. The Authority, the Depository, or the Trustee, as the case may be, shall notify the State Treasurer in each case if a Governmental Unit (a) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any MBIA Insurance Program Revenue Sharing Municipal Obligation; (b) fails to pay at least two days prior to the date when due, any payments required to be made pursuant to any Revenue Sharing Municipal Obligation; or (c) fails to pay at least five Business Days prior to the date when due any payments required to be made pursuant to any School Program Municipal Obligation. Such notice shall contain a request that the State Treasurer immediately transfer payments pursuant to the applicable Revenue Sharing Pledge Agreement or Pledge Agreement.

Rebate Fund

All Rebate Payments shall be deposited into the Rebate Fund. The Amounts in the Rebate Fund shall be held in trust and applied as provided in the Resolution and in the Non-Arbitrage and Tax Compliance Certificate.

Amounts Remaining in Funds and Accounts

Any amounts remaining in any Fund or account after full payment of the Bonds secured by such Fund or account or provision for payment thereof and all fees, charges and expenses have been paid shall be distributed by the Depository or the Trustee to the Authority, or as otherwise provided in a Supplemental Resolution; provided, however, that any amounts owing to MBIA and payable from such Fund or account shall first be paid to MBIA and any amounts owing to AMBAC Assurance and payable from such Fund or account shall be first paid to AMBAC Assurance.

Investment of Funds

Investment of Funds and Accounts Held

Unless otherwise provided in a Supplemental Resolution, moneys in the Loan Fund, the Costs of Issuance Fund, the Reserve Fund, the Rebate Fund and the Revenue Fund shall be invested by the Authority, or at the direction of the Authority by the Trustee or the Depository in Eligible Investments, the maturity, redemption date or purchase date at the option of the holder of which shall coincide as nearly as practicable with the times at which moneys are received by the Authority for the purposes of such fund. Notwithstanding the foregoing, moneys in the MBIA Insured Revenue Sharing Bond Account of the Revenue Fund, the MBIA Insured Revenue Sharing Bond Loan Account of the Loan Fund or the MBIA Insured Revenue Sharing Bond Reserve Account of the Reserve Fund shall be invested only in those Eligible Investments which are designated to the Trustee in writing by an Authorized Officer of the Authority and approved in writing by MBIA; provided that such designation may be changed from time to time by an Authorized Officer of the Authority with the written approval of MBIA.

Obligations purchased as an investment of moneys in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution shall be deemed at all times to be a part of such fund or account; provided that the income or interest earned by, or increment to, any fund or account shall be transferred as provided in the Resolution.

In computing the amount in any fund or account held by the Authority, the Depository or the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein shall be valued at the lower of market or cost as adjusted by amortization of the discount or premium paid upon purchase of such obligations ratably to their respective maturities.

The Authority, the Depository or the Trustee shall sell at the best price obtainable, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account for which such investment was made. The Depository and the Trustee shall advise the Authority in writing, on or before the 15th day of each calendar month, of the details of all investments held for the credit of each fund and account in its custody under the provisions of the Resolution as of the end of the preceding month or such other interval as directed in writing by an Authorized Officer of the Authority.

Liability of Trustee, Depository and Authority for Investments

Neither the Depository, the Trustee nor the Authority shall be liable or responsible for the making of any investment authorized by the provisions of the Resolution, in the manner therein provided, or for any loss resulting from any such investment so made.

The Trustee and the Depository

The Trustee and the Depository with respect to the Series Bonds shall file with the Authority its acceptance of the trusts and obligations imposed upon it by the Resolution and agrees to perform such trusts and obligations, but only upon and subject to, among others, the following express terms and conditions:

(1) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by the Resolution (and, with respect to the MBIA Insured Revenue Sharing Bonds only, use the same degree of care and skill in their exercise as a prudent corporate trustee would exercise or use in the circumstances in the conduct of that corporate trustee's own affairs).

(2) The Trustee may execute any of the trusts or powers of the Resolution and perform any of its duties by or through attorneys, agents, receivers or employees, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters thereof, and may in all cases be reimbursed under the Resolution for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust thereof. The Trustee may act upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or nonaction by it taken or omitted to be taken in good faith in reliance upon such opinion of Counsel.

(3) The permissive right of the Trustee to do things enumerated in the Resolution shall not be construed as a duty and the Trustee shall not be answerable for other than its gross negligence or willful default. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(4) Before taking any action under the Resolution, whether permissive or mandatory, the Trustee may require that reasonable security and/or a reasonably satisfactory indemnification be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful misconduct.

Covenants of the Authority

Under the Resolution, the Authority covenants and agrees with the Bondholders as follows:

(1) The Authority shall duly and punctually pay or cause to be paid the principal or Redemption Price of every Bond and the interest, if any, thereon, at the dates and places and in the manner provided in the Bond, according to the true intent and meaning thereof.

(2) The Authority is duly authorized pursuant to law to issue the Bonds and to adopt the Resolution and to pledge the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution in the manner and to the extent provided by the Resolution or a Supplemental Resolution. The Pledged Funds, Security, and other moneys, securities, funds and property so pledged are and will be free and

clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution except as otherwise provided in the Resolution or a Supplemental Resolution, and all action on the part of the Authority to that end will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolutions providing for the issuance of Bonds. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Funds, Security, and other moneys, securities, funds and property pledged under the Resolution and all the rights of the Bondholders and the Trustee under the Resolution against all claims and demands of all persons whomsoever.

(3) The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Municipal Obligations, payments thereof and all funds and accounts established by the Resolution, which shall, except as otherwise provided by law, at all reasonable times be subject to the inspection by the Trustee, MBIA and the owners of an aggregate of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding or their representatives duly authorized in writing.

(4) The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution, or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority.

(5) The Authority shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness, other than the Bonds, secured by a charge and lien on the Pledged Funds, and other moneys, securities, funds and property pledged by the Resolution except as provided in the Resolution or Supplemental Resolution.

(6) The Authority shall diligently take all reasonable steps, actions and proceedings necessary for the enforcement of all terms covenants and conditions of purchases made by the Authority which shall affect the prompt collection of payments under the Municipal Obligations including the enforcement of the Municipal Obligations. Whenever it shall be necessary in order to protect and enforce the rights of the Authority under a Municipal Obligation and to protect and enforce the rights and interests of Bondholders under the Resolution the Authority shall commence proceedings against the Governmental Unit in default under the provisions of Municipal Obligations in protection and enforcement of its rights under such Municipal Obligations and bring appropriate action to collect any unpaid balance due on the Municipal Obligations.

(7) Notwithstanding any other provision of the Resolution, the Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly to acquire any investment property, the acquisition of which would cause any of the Bonds to be an "arbitrage bond" as defined in Section 148(a) of the Code. The Authority covenants and agrees that to the extent permitted by law, it shall take all actions within its control necessary to maintain and shall not take any actions the taking of which would adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes including but not limited to, actions relating to the rebate of arbitrage earnings and the expenditure and investment of Bond proceeds and money deemed to be Bond proceeds, all as more fully set forth in the Non-Arbitrage and Tax Compliance Certificate. Amounts required to be deposited in the Rebate Fund shall be determined by or at the direction of the Authority at such times as are required by the Non-Arbitrage And Tax Compliance Certificate. To the extent the Authority determines that there are excess moneys in the Rebate Fund, such excess moneys shall be paid to the Authority.

Without limitation to the foregoing, the Authority covenants and agrees to pay to the United States (but only to the extent of moneys available therefor under the Resolution) any amount required to be paid by the Authority to the United States pursuant to Section 148(f) of the Code, at the times, in the amounts and at the places required thereby in order to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation.

(8) The Authority shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the Authority to be used directly or indirectly in a manner which would result in the exclusion of the Bonds from the treatment afforded by Section 103(a) of the Code for any reason including without limitation by reason of the classification of such Bonds as "private activity bonds" within the meaning of Section 141(a) of the Code, or as federally guaranteed bonds as provided in Section 149(b) of the Code.

Supplemental Resolutions

Supplemental Resolutions Not Requiring Consent of Bondholders

The Authority may, without the consent of or notice to any of the Bondholders, adopt at any time any Supplemental Resolution or Resolutions for any one or more of the following purposes and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof, certified by an Authorized Officer of the Authority:

- (a) to cure any ambiguity or formal defect or omission in the Resolution;
- (b) to grant to or confer upon the Trustee for the benefit of the Bondholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;
- (c) to subject to the Resolution additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Resolution or any resolution supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Resolution or any resolution supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;
- (e) to evidence the appointment of a separate or the succession of a new Trustee, Bond Registrar and Paying Agent, Co-Paying Agent or Depository under the Resolution;
- (f) to satisfy the requirements of Moody's or S&P or other national rating agencies rating the Bonds in order to obtain, maintain or improve the rating on any of the Bonds;
- (g) to provide for the orderly sale of Bonds or purchase of Municipal Obligations;
- (h) to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes, to prevent interest on the Bonds from being subject to any alternative minimum tax (other than an alternative minimum tax which applies to all tax-exempt bonds generally) and to maintain the exemption of the Bonds and the interest thereon from State taxation;

- (i) to provide for additional or different Types of Bonds;
- (j) to issue refunding bonds pursuant to the Resolution;
- (k) to reduce or eliminate the Reserve Account Requirement with respect to any Type of Bonds if such reduction or elimination is otherwise permitted under the Resolution;
- (l) to provide for the issuance of any Series or Group of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;
- (m) to provide for the issuance of Bonds of any Type bearing interest at variable interest rates, or with variable interest periods or subject to mandatory purchase at the option of the Owner thereof;
- (n) to provide for the purchase of bond insurance or other credit or liquidity support for any Bond;
- (o) to provide for the purchase or acquisition of one or more Reserve Account Security Instruments;
- (p) to effect any other changes in the Resolution which, in the judgment of the Trustee, are not to the prejudice of the Trustee or the Bondholders; and
- (q) to accomplish, implement, or give effect to any other action which is authorized or required by the Resolution.

Supplemental Resolutions Requiring Consent of Bondholders

The owners of not less than two-thirds in aggregate principal amount of the Bonds Outstanding which are affected shall have the right, from time to time, anything contained in the Resolution to the contrary notwithstanding, to consent to and approve the adoption by the Authority and the acceptance by the Trustee of such other supplemental resolution or resolutions as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions affecting or relating to such Type of Bonds contained in the Resolution or in any Supplemental Resolution; provided, however, that there shall not be permitted, other than in accordance with the Resolution and the terms of the Bonds with respect to each Type of Bonds (1) without the consent of the owners of all then Outstanding Bonds of such type, (a) an extension of the maturity date of the principal of or the interest Payment Date for interest on any Bond of such type, or (b) a reduction in the principal amount of any Bond of such type or the rate of interest thereon, or (c) a privilege or priority of any Bond or Bonds of a Type over any other Bond or Bonds of the same Type, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution, or (e) the creation of any lien other than a lien ratably securing all of the Bonds of the same Type at any time Outstanding under the Resolution, or (2) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee or Depository without the written consent of the Trustee or the Depository, respectively.

If at any time the Authority shall request the Trustee to accept any such Supplemental Resolution, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed Supplemental Resolution to be mailed by registered or certified mail to MBIA and each owner of a Bond at the address shown on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Resolution and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the owners of not less than two-thirds in aggregate principal amount of the Bonds of each Type affected by such Supplemental Resolution Outstanding at the time of the execution of any such Supplemental Resolution shall have consented to and approved the adoption thereof as provided in the Resolution, no owner of any Bond shall have any right to object to any of the terms and provisions contained in such proposed Supplemental Resolution, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the adoption of any such Supplemental Resolution, the Resolution shall be and be deemed to be modified, supplemented and amended in accordance therewith.

Notice of Amendments

Promptly after the adoption by the Authority of any Supplemental Resolution, the Trustee shall mail a notice, setting forth in general terms the substance thereof, to any Bondholder requesting the same in writing and each Rating Agency then rating the affected Bonds. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Resolution.

Supplemental Non-Arbitrage and Tax Compliance Certificates

The Authority may, from time to time and at any time, amend, supplement or modify the Non-Arbitrage and Tax Compliance Certificate, to the extent permitted by law, to maintain the exclusion of the interest on the Bonds from gross income for purposes of federal income taxation under the Code; provided however the Authority shall receive the opinion of Bond Counsel stating that such amendment, supplement or modification is necessary or desirable to maintain such exclusion of the interest on the Bonds (or the exclusion of the interest on the Municipal Obligations) prior to amending, supplementing or modifying the Non-Arbitrage and Tax Compliance Certificate.

Consent of MBIA

Notwithstanding any other provision of the Resolution, for so long as any Reserve Account is funded in whole or in part by a Reserve Account Security Instrument issued by MBIA or a Municipal Bond Guaranty Insurance Policy is in effect and MBIA is not in default of payment obligations thereunder, the Authority shall not amend or approve the amendment of (i) any provision of the Resolution relating to the Bonds secured thereby, (ii) any corresponding Municipal Obligation, (iii) any Collateral Document relating to a corresponding Municipal Obligation, or (iv) any Revenue Sharing Pledge Agreement or Pledge Agreement relating to a corresponding Municipal Obligation, without the prior written consent of MBIA.

Defaults and Remedies

Events of Default

Each of the following events is an "Event of Default" under the Resolution:

(a) Default in the payment of the principal of or interest on any Bond after the same shall become due, whether at maturity, stated date of payment or upon call for redemption, provided that an Event of Default shall be deemed to exist only with respect to those Bonds of the same Type as the Bond with respect to which such failure occurred and provided further that for purposes of determining whether an Event of Default has occurred or is continuing under this paragraph (a), payments by AMBAC Assurance under any AMBAC Insurance Policy shall not be taken into account; or

(b) With respect to each Type of Bonds, the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, or in the Bonds of such Type contained and continuance of such default for a period of ninety (90) days after written notice thereof by the Trustee or the owners of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type, or in the case of MBIA Insured Revenue Sharing Bonds, MBIA, or in the case of Capital Guaranty Insured Bonds, Capital Guaranty, or in the case of AMBAC Insured Bonds, AMBAC Assurance, provided, however, that an Event of Default shall not be deemed to exist under the provisions of this clause (b) so long as the Authority shall be provided with or have moneys sufficient in amount to pay the principal of and interest on all Bonds of such Type and expenses authorized to be paid under the Resolution as the same shall become due.

Remedies

With respect to each Type of Bonds:

(a) Upon the happening and continuance of any Event of Default, then, and in each such case the Trustee may (and in the case of MBIA Insured Revenue Sharing Bonds, with the written consent of MBIA) (and in the case of Capital Guaranty Insured Bonds, with the written consent of Capital Guaranty) (and in the case of AMBAC Insured Bonds, with the prior written consent of AMBAC Assurance) proceed, and upon the written request of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds, or, in the case of MBIA Insured Revenue Sharing Bonds, MBIA (provided that if both MBIA and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control), or in the case of Capital Guaranty Insured Bonds, Capital Guaranty (provided that if both Capital Guaranty and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of the Holders of not less than fifty-one percent (51%) in principal amount of Outstanding Bonds shall control), or, in the case of AMBAC Insured Bonds, AMBAC Assurance (provided that if both AMBAC Assurance and the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds make such written request, the request of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds shall control), shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights at the direction and with the consent of MBIA (in the case of MBIA Insured Revenue Bonds) and at the direction and with the consent of Capital Guaranty (in the case of Capital Guaranty Insured Bonds) and at the direction and with the consent of AMBAC Assurance (in the case of AMBAC Insured Bonds):

(1) by mandamus or other suit, action or proceedings at law or in equity, to enforce the rights of the Bondholders; and to require the Authority to carry out any other agreement with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit, requiring the Authority to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Bonds;

(5) by requiring the Authority to enforce the rights of the Authority under Municipal Obligations or, if not prohibited by Supplemental Resolution, to sell the Municipal Obligations;

(6) by bringing an action or suit to obtain any other remedy available at law or equity;

(7) if not prohibited by Supplemental Resolutions, by declaring all Bonds, of the Type or Types with respect to which an Event of Default is deemed to exist, due and payable; and if all defaults shall have been cured, then, with the written consent of the Holders of not less than fifty-one percent (51%) in principal amount of the Outstanding Bonds of such Type to annul such declaration and its consequences; and provided that in the case of MBIA Insured Revenue Sharing Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of MBIA, and provided further that in the case of Capital Guaranty Insured Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of Capital Guaranty; and provided further that in the case of AMBAC Insured Bonds, no acceleration shall be declared pursuant to this clause without the prior written consent of AMBAC Assurance.

(b) The Trustee shall give notice of any Event of Default to the Authority and MBIA with respect to MBIA Insured Revenue Sharing Bonds and Capital Guaranty with respect to the Capital Guaranty Insured Bonds, and AMBAC Assurance with respect to AMBAC Insured Bonds, in the event of default as promptly as practicable after the occurrence of an Event of Default becomes known to the Trustee, and shall give notice in writing to the Governor of the State, the State Treasurer, the Attorney General of the State and the Authority not less than thirty days prior to declaring the principal of the Bonds due and payable after an Event of Default.

(c) In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, interest or otherwise, under any provision of the Resolution or of the Bonds, and unpaid, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from Pledged Funds, in any manner provided by law, the moneys adjudged or decreed to be payable.

Application of Moneys

(a) With respect to Bonds of each Type all moneys received by the Trustee pursuant to any right given or action taken upon an Event of Default, including by virtue of action taken under provisions of any Bond or Municipal Obligation, shall, after payment of the reasonable costs and expenses of the proceedings resulting in the collection of such moneys and of the reasonable expenses, liabilities and advances

incurred or made by the Trustee, be applied, along with any other moneys available for such purposes, unless the principal of all the Bonds of such Type shall have become due and payable:

FIRST--To the payment to the persons entitled thereto of installments of interest in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment to the persons entitled thereto, without any discrimination or privilege;

SECOND--To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due at stated maturity or pursuant to a call for redemption (other than Bonds called for redemption for the payment of which moneys are held pursuant to the other provisions of the Resolution), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD--To be held as provided under the heading "Pledge and Establishment of Funds and Accounts" above for the payment to the persons entitled thereto as the same shall become due of the amounts payable pursuant to the Resolution; provided, that payments made under a Municipal Bond Guaranty Insurance Policy shall only be used for payments of principal of and interest on the MBIA Insured Revenue Sharing Bonds in accordance with the terms of the Municipal Bond Guaranty Insurance Policy; and provided further that payment made under a Financial Guaranty Bond with respect to Capital Guaranty Insured Bonds shall only be used for payments of principal of and interest on the Capital Guaranty Insured Bonds in accordance with the terms of the Financial Guaranty Bond; and provided further that payments made under an AMBAC Insurance Policy issued with respect to the AMBAC Insured Bonds shall only be used for payments of principal and interest on the AMBAC Insured Bonds in accordance with the terms of the AMBAC Insurance Policy.

(b) If the principal of all the Bonds of any Type shall have become due, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds and amounts payable as described in paragraphs (2) through (4) under "The Revenue Fund" under this caption, with principal and interest to be paid first without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, and then amounts payable as described in paragraphs (2) through (4) under "The Revenue Fund" under this caption to be paid second.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described above, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine (provided, however, that in the case of AMBAC Insured Bonds such determination shall only be made with the prior written consent of AMBAC Assurance), having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future; the deposit or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Authority, to any Bondholder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment of principal to any Bondholders unless such Bond shall be presented to the Trustee.

Termination of Proceedings

In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason or determined adversely to the Trustee, then in every such case the Authority, the Trustee, MBIA, Capital Guaranty, AMBAC Assurance, and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee, the Authority, MBIA, Capital Guaranty, AMBAC Assurance, and the Bondholders shall continue as though no such proceeding had been taken.

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of fifty-one percent (51%) in principal amount of the Bonds Outstanding of any Type, and, in the case of MBIA Insured Revenue Sharing Bonds (but only if no inconsistent direction is given by the Owners of not less than fifty-one percent (51%) in principal amount of MBIA Insured Revenue Sharing Bonds), MBIA, and, in the case of Capital Guaranty Insured Bonds (but only if no inconsistent direction is given by Owners of not less than fifty-one percent (51%) in principal amount of Capital Guaranty Insured Bonds), Capital Guaranty, and, in the case of AMBAC Insured Bonds (but only if no inconsistent direction is given by owners of not less than fifty-one percent (51%) in principal amount of AMBAC Insured Bonds), AMBAC Assurance, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings with respect to Bonds of such Type to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Resolution and any applicable Supplemental Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Rights of Bondholders

With respect to Bonds of any Type, no Holder of any Bond shall have any right to institute any suit, action or other proceeding under the Resolution, or for the protection or enforcement of any right thereunder or any right under law unless such Bondholder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than fifty-one percent (51%) in principal amount of the Bonds Outstanding of such Type, with the consent of MBIA with respect to the MBIA Insured Revenue Sharing Bonds, with the consent of Capital Guaranty with respect to the Capital Guaranty Insured Bonds, and with the consent of AMBAC Assurance with respect to AMBAC Insured Bonds, shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolution or for any other remedy thereunder or under law. It is understood and intended that no one or more Bondholders thereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right thereunder or under law with respect to the Bonds or the Resolution, except in the manner therein provided, and all proceedings shall be instituted, had and maintained in the manner therein provided and for the benefit of all Holders of the Outstanding Bonds of each Type. Notwithstanding the foregoing provisions, the obligation of the Authority shall be absolute and unconditional to pay the principal of and interest on the Bonds to the respective Holders thereof at the respective due dates thereof and nothing in the Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least fifty-one percent (51%) in principal amount of the Bonds Outstanding of the Type to which such suit relates, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or interest on any Bond on or after the respective due date thereof expressed in such Bond.

Possession of Bonds by Trustee Not Required

All rights of action under the Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of the Resolution.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Holders of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or Capital Guaranty with respect to the Capital Guaranty Insured Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds or MBIA with respect to MBIA Insured Revenue Sharing Bonds, or Capital Guaranty with respect to the Capital Guaranty Insured Bonds, or AMBAC Assurance with respect to AMBAC Insured Bonds, to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Resolution to the Trustee, and the Holders of the Bonds, MBIA, Capital Guaranty or AMBAC, respectively, may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default

With respect to the Bonds of each Type, the Trustee shall give to the Owners of such Bonds notice of each Event of Default respecting such Bonds known to the Trustee as soon as reasonably practicable after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof by first class mail to all registered owners of such Bonds, as the names and addresses of such owners appear upon the books for registration and transfer of Bonds as kept by the Bond Registrar and Paying Agent.

Defeasance

Any Bond will be deemed to be paid within the meaning of the Resolution when (a) payment of the principal of such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption), either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Depository or the Trustee in trust and irrevocably setting aside exclusively for such payment sufficient moneys to make such payment and/or Government Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and (b) all necessary and proper fees, premiums, compensation and expenses of the Trustee, the Depository, Bond Registrar and Paying Agent, Co-Paying Agent, the Authority, and any co-registrar or transfer agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Bond is deemed to be paid under the Resolution, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the Resolution, except with respect to provisions relating to the payment of the principal of and interest on such Bond from such moneys or Government Obligations and the related duties of the Depository, Bond Registrar and Paying Agent or the Trustee.

Notwithstanding the foregoing paragraph, no deposit described under clause (a) (ii) of such paragraph will be deemed a payment of such Bonds (1) until the Authority has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions: (i) stating the date when the principal or each such Bonds is to be paid, whether at maturity or on a redemption date, (ii) to call for redemption pursuant to the Resolution any Bonds to be redeemed prior to maturity and (iii) if all the Bonds to be redeemed are not to be redeemed within 30

days, to mail, as soon as practicable, in the manner prescribed by the Resolution for notices of redemption, a notice to the owners of such Bonds that the deposit required by (a)(ii) has been made with the Depository or the Trustee and that said Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds; and (2) if any Bonds are to be redeemed within the next 30 days, until proper notice of redemption of those Bonds shall have been given.

Notwithstanding any other provision described under this subheading, in the event that the principal and/or interest due on any MBIA Insured Revenue Sharing Bonds shall be paid by MBIA pursuant to a Municipal Bond Guaranty Insurance Policy, such Bonds shall continue to exist and MBIA shall be subrogated to the rights of such registered owners.

Notwithstanding any other provision described under this subheading, in the event that the principal and redemption price, if applicable, and interest due on the Capital Guaranty Insured Bonds and coupon, if any, shall be paid by Capital Guaranty pursuant to a Financial Guaranty Bond, the assignment and pledge of the Pledged Funds, and all covenants, agreements and other obligations of the Authority to the Owners of the Capital Guaranty Insured Bonds shall continue to exist and Capital Guaranty shall be subrogated to the rights of such Bondholders.

In the event that the Capital Guaranty Insured Bonds are to be defeased, Capital Guaranty shall be notified and provided with draft copies of the proposed escrow agreement, CPA certification, preliminary official statement of the refunding issue (if applicable) and bond counsel opinion. These materials shall be delivered to Capital Guaranty no less than five (5) business days prior to the scheduled defeasance.

Defeasance shall be accomplished only with an irrevocable deposit in escrow of certain investments referred to below. Further substitutions of securities in the escrow are not permitted. The deposit in the escrow must be sufficient, without reinvestment, to pay all principal and interest as scheduled on the Capital Guaranty Insured Bonds to and including the date of redemption.

A copy of the escrow agreement and certified public accountant's certificate stating that the escrow is sufficient to meet these standards, together with the final official statement for the refunding issue (if applicable), bond counsel opinion, Trustee's receipt, and Trustee's certification as to the application of funds shall be furnished to Capital Guaranty no later than ten (10) business days subsequent to the defeasance.

The investments for a defeasance must consist solely of one or more of the following:

- (a) cash;
- (b) State and Local Government Series issued by the United States Treasury ("SLGS");
- (c) United States Treasury bills, notes and bonds, as traded on the open market; and,
- (d) zero coupon United States Treasury Bonds.

Notwithstanding any other provision under this subheading, in the event that the principal and/or interest due on any AMBAC Insured Bonds shall be paid by AMBAC Assurance pursuant to an AMBAC Insurance Policy, such AMBAC Insured Bonds, shall remain Outstanding, not by reason of such payment be considered defeased or paid by the Authority and the assignment and pledge of the Security and all covenants, agreements and other obligations of the Authority to the registered owners of such AMBAC Insured Bonds shall continue to exist and AMBAC Assurance shall be subrogated to the rights of such registered owners.

Notwithstanding the foregoing paragraph, (a), no deposit under (ii) of paragraph (a) above will be deemed a payment of AMBAC Insured Bonds unless (A) the sufficiency of the escrowed cash and non-callable Government Obligations to provide for the payment of debt service on such AMBAC Insured Bonds has been verified in full (the "Verification") by an independent nationally recognized certified public accountant and (B) AMBAC Assurance has been provided a copy of the Verification, an executed copy of the escrow agreement and an opinion of Bond Counsel to the effect that such Bonds are no longer "Outstanding" under this Bond Resolution, each of which shall be in form and substance acceptable to AMBAC Assurance.

Provisions Relating to Capital Guaranty Insured Bonds

Wherever the term "Bondholder", "Owner", "Holder", "Holder of Bonds", or "Owner of Bonds" or a term of like meaning appears in the Resolution with respect to Capital Guaranty Insured Bonds, Capital Guaranty shall be deemed to be a "Bondholder", "Owner", "Holder", "Holder of Bonds" or "Owner of Bonds" of a sufficient percentage of the outstanding Capital Guaranty Insured Bonds (a) to initiate any action or effect any demand which Capital Guaranty Insured Bond holders may initiate or effect, and (b) to approve or disapprove an action, forbearance or amendment which is subject to Bondholder approval or Initiation.

At the time that the Trustee for the Capital Guaranty Insured Bonds is required to give any notice relating to the Capital Guaranty Insured Bonds to any party, like notice shall be given to Capital Guaranty. In addition, the Trustee for the Capital Guaranty Insured Bonds shall immediately notify Capital Guaranty (i) not less than ten (10) Business Days (or such lesser number of days as are actually available to the Trustee) in advance of the execution or acceptance of any supplement, amendment or change to the Resolution relating to the Capital Guaranty Insured Bonds, (ii) upon any deficiency in any fund or account held by the Trustee for the Capital Guaranty Insured Bonds under the Resolution with respect to the Capital Guaranty Insured Bonds, (iii) upon a direction from the Authority to redeem all or a portion of the Capital Guaranty Insured Bonds, (iv) upon the resignation or petition for removal of the Trustee for the Capital Guaranty Insured Bonds or the appointment of a successor Trustee for the Capital Guaranty Insured Bonds and (v) upon any event of default with respect to the Capital Guaranty Insured Bonds or upon any event that with notice and/or with the lapse of time could become an event of default with respect to the Capital Guaranty Insured Bonds under the Resolution.

Moneys in the Capital Guaranty Insured Bonds Accounts of the Revenue Fund and Loan Fund shall be invested only in those Eligible Investments which are designated to the Trustee in writing by an Authorized Officer of the Authority and approved in writing by Capital Guaranty; provided that such designation may be changed from time to time by an Authorized Officer of the Authority with the written approval of Capital Guaranty.

Notwithstanding any other provision of the Resolution, the Trustee for the Capital Guaranty Insured Bonds and the Bond Registrar and Paying Agent for the Capital Guaranty Insured Bonds, may be removed at any time, at the request of Capital Guaranty, for any breach of the trust set forth in the Resolution.

Notwithstanding any other provision of the Resolution the Trustee for the Capital Guaranty Insured Bonds and the Bond Registrar and Paying Agent for the Capital Guaranty Insured Bonds and every successor thereto shall: (a) be a trust company or bank in good standing located in or incorporated under the laws of the State, (b) be duly authorized to exercise trust powers, (c) be subject to examination by a federal or state authority and (d) maintain a reported capital and surplus of not less than seventy-five million dollars (\$75,000,000).

As long as a Financial Guaranty Bond shall be in full force and effect with respect to Capital Guaranty Insured Bonds, the Authority and the Trustee agree to comply and shall comply with the following provisions:

1. The gross amount to be deposited to the Capital Guaranty Insured Bonds Account of the Revenue Fund required to pay in full (a) the interest on the Capital Guaranty Insured Bonds on each stated interest date and (b) the principal of the Capital Guaranty Insured Bonds on each stated maturity date thereof and on each date on which such principal shall have been duly called for mandatory sinking fund redemption (in either event the "Payment Date") shall be deposited by or on behalf of the authority at least five (5) Business Days prior to each such stated Payment Date.

2. If, at the close of business on the fifth Business Day prior to a Payment Date, the Trustee for the Capital Guaranty Insured Bonds determines that there will be insufficient moneys in the funds and accounts available to pay in full the principal of and/or Interest on the Capital Guaranty Insured Bonds on such Payment Date, the Trustee for the Capital Guaranty Insured Bonds shall so notify Capital Guaranty Insurance Company ("Capital Guaranty") via telephonic notice to Capital Guaranty's Claims Officer at (415) 995-8000, confirmed by telecopy at (415) 995-8008, of a completed "Notice of Nonpayment" in the form attached as Exhibit A to the Financial Guaranty Bond.

3. Simultaneously with the giving of notice to Capital Guaranty as proved in the preceding paragraph, the Trustee for the Capital Guaranty Insured Bonds shall make available to Capital Guaranty, its agents or assigns the bond registration books of the Authority maintained by the Trustee for the Capital Guaranty Insured Bonds, and all records relating to the funds and accounts for the Capital Guaranty Insured Bonds established under the Bond Resolution.

4. By the close of business on the third Business Day prior to a Payment Date for which there will be a deficiency as aforesaid, the Trustee for the Capital Guaranty Insured Bonds shall provide Capital Guaranty Insured Bonds entitled to receive principal or interest payments from Capital Guaranty under the terms of a Financial Guaranty Bond and the full or partial amounts of interest and principal due each such registered owner.

5. By the close of business on the second Business Day prior to a Payment Date for which there will be a deficiency as aforesaid, Capital Guaranty shall make arrangements with its Disbursing Agent (as such term is defined in the Financial Guaranty Bond) to disburse to the Trustee for the Capital Guaranty Insured Bonds on such Payment Date funds to be held by the Trustee for the Capital Guaranty Insured Bonds in a segregated trust account (the "Segregated Account") in an amount sufficient to enable the Trustee for the Capital Guaranty Insured Bonds (1) to mail checks or drafts on such Payment Date to the registered owners of Capital Guaranty Insured Bonds entitled to receive full or partial interest payments pursuant to the terms of a Financial Guaranty Bond, and (2) to pay principal upon Capital Guaranty Insured Bonds surrendered to the Trustee for the Capital Guaranty Insured Bond by the registered owners of Capital Guaranty Insured Bonds entitled, pursuant to the terms of a Financial Guaranty Bond, to receive full or partial principal payments from Capital Guaranty. The Trustee for the Capital Guaranty Insured Bonds shall administer the Segregated Account (including, but not limited to, the investment thereof and the return of excess amounts, if any) in accordance with the written instructions of an authorized officer of Capital Guaranty.

6. The Trustee for the Capital Guaranty Insured Bonds at the time it provides Notice of Nonpayment to Capital Guaranty, shall notify registered owners of Capital Guaranty Insured Bonds

entitled to receive principal and/or Interest payments from Capital Guaranty (i) as to the fact of such entitlement, (ii) that Capital Guaranty's Disbursing Agent may or will remit to Trustee for the Capital Guaranty Insured Bonds all or a portion of the interest payments coming due on the next scheduled Payment Date, (iii) that if entitled to receive full or partial payment of principal pursuant to the terms of a Financial Guaranty Bond, such registered owners must tender their Capital Guaranty Insured Bonds for payment thereof to the Trustee for the Capital Guaranty Insured Bonds along with a valid and duly executed transfer of title in a form reasonably satisfactory to Capital Guaranty. Upon the tendering of such Capital Guaranty Insured Bonds to the Trustee for the Capital Guaranty Insured Bonds shall pay the registered owners thereof the unpaid portion of principal then due pursuant to a Financial Guaranty Bond.

7. Capital Guaranty, if it causes its Disbursing Agent to make payment of all or a portion of principal of or interest on Capital Guaranty Insured Bonds pursuant to a Financial Guaranty Bond, shall become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Bond, and to evidence such subrogation (i) in the case of subrogation as to payments under a Financial Guaranty Bond representing interest, the Trustee for the Capital Guaranty Insured Bonds shall note Capital Guaranty's rights as subrogee and the amount of such interest so paid by Capital Guaranty on the registration books of the Authority maintained by the Trustee, and (ii) in the case of subrogation as to payments under a Financial Guaranty Bond representing principal, the Trustee shall note Capital Guaranty's rights as subrogee and the amount of such principal so paid by Capital Guaranty on the registration books of the Authority maintained by the Trustee upon surrender of the Capital Guaranty Insured Bonds by the registered owners thereof. The Capital Guaranty Insured Bonds shall contain a statement of Insurance in the form provided by Capital Guaranty.

Provisions Relating to AMBAC Insured Bonds

Any provision of the Bond Resolution expressly recognizing or granting rights in or to AMBAC Assurance may not be amended in any manner which affects the rights of AMBAC Assurance hereunder without the prior written consent of AMBAC Assurance.

Unless otherwise provided in this Section, AMBAC Assurance's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution or any amendment, supplement or change to or modification of the Bond Resolution affecting the AMBAC Insured Bonds; (ii) removal of the Trustee or paying Agent for the AMBAC Insured Bonds and selection and appointment of any successor trustee or paying agent for the AMBAC Insured Bonds; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

To the extent permitted by law, anything in the Bond Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein with respect to the AMBAC Insured Bonds, AMBAC Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Bond Resolution, including, without limitation: (i) the right to accelerate the principal of the AMBAC Insured Bonds as described in the Bond Resolution and (ii) the right to annul any declaration of acceleration with respect to the AMBAC Insured Bonds, and AMBAC Assurance shall also be entitled to approve all waivers of events of default with respect to the AMBAC Insured Bonds.

Upon the occurrence of an event of default, the Trustee may, with the consent of AMBAC Assurance, and shall, at the direction of AMBAC Assurance or 51% of the Bondholders with the consent of AMBAC

Assurance, by written notice to the Authority and AMBAC Assurance, declare the principal of the AMBAC Insured Bonds to be immediately due and payable, whereupon that portion of the principal of the AMBAC Insured Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Resolution or in the AMBAC Insured Bonds to the contrary notwithstanding.

While the AMBAC Insurance Policy is in effect, the Authority or the Trustee [as appropriate] shall furnish to AMBAC Assurance:

(a) as soon as practicable after the filing thereof, a copy of any financial statement of the Authority and a copy of any audit and annual report of the Authority;

(b) a copy of any notice to be given to the registered owners of the AMBAC Insured Bonds, including, without limitation, notice of any redemption or defeasance of AMBAC Insured Bonds, and any certificate rendered pursuant to this Bond Resolution relating to the security for the AMBAC Insured Bonds; and

(c) such additional information it may reasonably request.

The Trustee or Authority [as appropriate] shall notify AMBAC Assurance of any failure of the Authority to provide relevant notices, certificates, etc.

The Authority will permit AMBAC Assurance to discuss the affairs, finances and accounts of the Authority or any information AMBAC Assurance may reasonably request regarding the security for the AMBAC Insured Bonds with appropriate officers of the Authority. The Trustee or Authority [as appropriate] will permit AMBAC Assurance to have access to and to make copies of all books and records relating to the AMBAC Insured Bonds at any reasonable time except as otherwise provided by law.

AMBAC Assurance shall have the right to direct an accounting at the Authority's expense, and the Authority's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from AMBAC Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long a compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the AMBAC Insured Bonds.

Notwithstanding any other provision of this Bond Resolution, the Trustee or Authority [as appropriate] shall immediately notify AMBAC Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest at required and immediately upon the occurrence of any event of default hereunder.

As long as the AMBAC Insurance Policy shall be in full force and effect, the Authority, the Trustee and any Paying Agent agree to comply with the following provisions:

(a) At least one (1) day prior to all Interest Payment Dates the Trustee or Paying Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the AMBAC Insured Bonds on such Interest Payment Date. If the Trustee or Paying Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Trustee or Paying Agent, if any, shall so notify AMBAC Assurance. Such notice shall specify the amount of the anticipated deficiency, the AMBAC Insured Bonds to which such deficiency is applicable and whether

such AMBAC Insured Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent, if any, has not so notified AMBAC Assurance at least one (1) day prior to an Interest Payment Date, AMBAC Assurance will make payments of principal or interest due on the AMBAC Insured Bonds on or before the first (1st) day next following the date on which AMBAC Assurance shall have received notice of nonpayment from the Trustee or Paying Agent, if any.

(b) The Trustee or Paying Agent, if any, shall, after giving notice to AMBAC Assurance as provided in (a) above, make available to AMBAC Assurance and, at AMBAC Assurance's direction, to the United States Trust Company of New York, as insurance trustee for AMBAC Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee or Paying Agent, if any, and all records relating to the Funds and Accounts for the AMBAC Insured Bonds maintained under the Bond Resolution.

(c) The Trustee or Paying Agent, if any, shall provide AMBAC Assurance and the Insurance Trustee with a list of registered owners of AMBAC Insured Bonds entitled to receive principal or interest payments from AMBAC Assurance under the terms of the AMBAC Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of AMBAC Insured Bonds entitled to receive full or partial interest payments from AMBAC Assurance and (ii) to pay principal upon AMBAC Insured Bonds surrendered to the Insurance Trustee by the registered owners of AMBAC Insured Bonds entitled to receive full or partial principal payments from AMBAC Assurance.

(d) The Trustee or Paying Agent, if any, shall, at the time it provides notice to AMBAC Assurance pursuant to (a) above, notify registered owners of AMBAC Insured Bonds entitled to receive the payment of principal or interest thereon from AMBAC Assurance (i) as to the fact of such entitlement, (ii) that AMBAC Assurance will remit to them all or a part of the interest payments next coming due upon proof of Bondholder entitlement in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Assurance) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from AMBAC Assurance, they must surrender their AMBAC Insured Bonds for payment thereon first to the Trustee or Paying Agent, if any, who shall note on such AMBAC Insured Bonds the portion of the principal paid by the Trustee or Paying Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee or Paying Agent, if any, has noticed that any payment of principal or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent, if any, shall, at the time AMBAC Assurance is notified pursuant to (a) above, notify all

registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from AMBAC Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent, if any, shall furnish to AMBAC Assurance its records evidencing the payments of principal of and interest on the AMBAC Insured Bonds which have been made by the Trustee or Paying Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted AMBAC Assurance under the Bond Resolution, AMBAC Assurance shall, to the extent it makes payment of principal of or interest on AMBAC Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the AMBAC Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon receipt from AMBAC Assurance of proof of the payment of interest thereon to the registered owners of the AMBAC Insured Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent, if any, shall note AMBAC Assurance's rights as subrogee on the registration books of the Authority maintained by the Trustee or Paying Agent, if any, upon surrender of the AMBAC Insured Bonds by the registered owners thereof together with proof of the payment of principal thereof.

1. The Trustee (or Paying Agent) may be removed at any time at the request of AMBAC Assurance, for any breach of the trust set forth herein.
2. AMBAC Assurance shall receive prior written notice of any Trustee (or Paying Agent) resignation.
3. Every successor Trustee appointed pursuant to this Section shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital or surplus of not less than \$75,000,000 and acceptable to AMBAC Assurance. Any successor Paying Agent, if applicable, shall not be appointed unless AMBAC Assurance approves such successor in writing.
4. Notwithstanding any other provision of the Bond Resolution in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Bond Resolution, the Trustee (or Paying Agent) shall consider the effect on the Bondholders as if there were no AMBAC Insurance Policy.
5. Notwithstanding any other provision of the Bond Resolution, no removal, resignation or termination of the Trustee (or Paying Agent) shall take effect until a successor, acceptable to AMBAC Assurance, shall be appointed.

Nothing in the Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds any right, remedy or claim with respect to the AMBAC Insured Bonds under or by reason of this Bond Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Bond Resolution contained with respect to the AMBAC Insured Bonds by and on behalf of the Authority shall be for the sole

and exclusive benefit of the Authority, the Trustee, AMBAC Assurance, the Paying Agent, if any, and the registered owners of the AMBAC Insured Bonds.

Provisions Relating to Mandatory Purchase Bonds

Except as otherwise provided, each Mandatory Purchase Bond is subject to mandatory purchase, and the Authority shall purchase or cause to be purchased each Mandatory Purchase Bond, on each Mandatory Purchase Date applicable to such Mandatory Purchase Bond at a price equal to the principal amount thereof plus accrued interest, if any, thereon.

The Bond Registrar and Paying Agent shall mail to each holder of a Mandatory Purchase Bond notice of each Mandatory Purchase Date applicable to Mandatory Purchase Bonds at least 30 days or if 30 days is not practicable on the earliest practicable date before any Mandatory Purchase Date applicable to such Bonds, such notice to include the Mandatory Purchase Price and any Bonds which have been designated for Mandatory Purchase.

The registered owner of any Mandatory Purchase Bond may irrevocably elect to retain such Bond or any portion thereof on any Mandatory Purchase Date if such Bond or portion thereof is in a denomination authorized to be outstanding after such Mandatory Purchase Date by providing written notice to the Bond Registrar and Paying Agent or the Co-Paying Agent of such election. Such Notice of Election to Retain shall be irrevocable and, shall affirmatively acknowledge such matters as shall be specified in the applicable Mandatory Purchase Notice and shall contain the irrevocable agreement by the registered owner of the Bond with respect to which, or a portion of which, such Notice of Election to Retain is given not to tender such Bond, or such portion thereof for purchase pursuant to the provisions of this Resolution on or before the applicable Mandatory Purchase Date except as provided in the following paragraph.

Each Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) shall be tendered for purchase on each Mandatory Purchase Date applicable to such Bond at the time referred to in the applicable Mandatory Purchase Notice on the Mandatory Purchase Date, to the Bond Registrar and Paying Agent with an instrument of transfer satisfactory to the Bond Registrar and Paying Agent executed in blank by the registered owner or his attorney or legal representative with the signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

Determination of Interest Rates and Interest Periods for Mandatory Purchase Bonds. (a)

Except as otherwise provided, each Mandatory Purchase Bond shall bear interest during each Interest Period applicable to such Mandatory Purchase Bond at the rate determined by the Remarketing Agent on the Rate Determination Date for such Interest Period to be the minimum rate that, in the judgment of the Remarketing Agent, would enable such Remarketing Agent to sell each of the Mandatory Purchase Bonds to which such Rate Determination Date applies, on the first day of such Interest Period, at a price equal to the principal amount thereof plus accrued interest, if any, thereon. Different interest rates may be determined for Mandatory Purchase Bonds having identical or different Interest Periods, and the interest rates may be determined separately for each Series of Bonds. Notwithstanding the foregoing provisions of this paragraph or anything to the contrary in the Resolution:

(A) the interest rate borne by Mandatory Purchase Bonds may not exceed the maximum rate permitted by law;

(B) if any payment of the principal or Redemption Price of or interest on, or the purchase price of, any Mandatory Purchase Bond shall not be made when due, such Mandatory Purchase Bond and all other Mandatory Purchase Bonds with the same Mandatory Purchase Date shall bear interest at the last

interest rate borne by such Mandatory Purchase Bonds until such payment is made as provided in the Resolution, and in such Mandatory Purchase Bonds and the interest rate will not be adjusted as provided in this Section; and

(C) if on any Rate Determination Date for the Mandatory Purchase Bonds the Remarketing Agent does not determine the interest rate for any Interest Period applicable to a Mandatory Purchase Bond as provided in this Section, the interest rate for such Rate Determination Date shall be equal to the interest rate determined on the immediately preceding Rate Determination Date applicable to such Mandatory Purchase Bond for the Interest Period determined on such Rate Determination Date; and

(D) on each Preliminary Rate Determination Date the Remarketing Agent shall determine the rate or rates or range of rates (the "Rate Indication") which in its judgment would be the rate determined by the Remarketing Agent under this subsection, if such date were the next Rate Determination Date. The Remarketing Agent shall give notice of each Rate Indication for any Bond to the Authority and the Bond Registrar and Paying Agent, on each Preliminary Rate Determination Date. The Bond Registrar and Paying Agent shall give each registered owner of a Mandatory Purchase Bond written notice of each Rate Indication affecting such registered owner no later than three Business Days prior to each Rate Determination Date.

(a) The Remarketing Agent shall give notice of each interest rate determined for any Mandatory Purchase Bond in accordance with subsection (a) of this Section to the Authority, the Bond Registrar and Paying Agent and the Co-Paying Agent. The Bond Registrar and Paying Agent shall give written notice of each such interest rate to the Trustee and the holders of the Mandatory Purchase Bonds (other than Mandatory Purchase Bonds which, due to the failure to deliver a Notice of Election to Retain, are required to be tendered to the Bond Registrar and Paying Agent or the Co-Paying Agent on the first day of the Interest Period to which such interest rate applies) to which such interest rate will be applicable.

(b) The determination of the interest rates on the Mandatory Purchase Bonds by the Remarketing Agent as provided in this Section shall be conclusive and binding on the Holders of such Bonds, the Authority, the Trustee, the Co-Paying Agent and the Bond Registrar and Paying Agent.

(c) Interest on the Mandatory Purchase Bonds shall be calculated on the basis of a year consisting of 360 days divided into twelve 30-day months.

(d) The Interest Periods for Mandatory Purchase Bonds shall begin on the original issuance date of the Bonds or on the day after the last day of the preceding Interest Period, and each Interest Period shall end on the last calendar day of a month.

Remarketing of Mandatory Purchase Bonds. The Bond Registrar and Paying Agent shall notify the Remarketing Agent of the Remarketing Amount on the Business Day after the last day on which a Notice of Election to Retain may be given with respect to any Mandatory Purchase Date.

Unless the Authority otherwise directs, the Remarketing Agent shall offer for sale, and use its best efforts to sell for delivery, on each Mandatory Purchase Date at a price equal to the principal amount thereof plus accrued interest, if any, thereon to such Mandatory Purchase Date, Mandatory Purchase Bonds in an aggregate principal amount equal to the Remarketing Amount. The Remarketing Agent shall notify the Bond Registrar and Paying Agent of the aggregate principal amount of Bonds expected to be sold by the Remarketing Agent on such Mandatory Purchase Date. The Bond Registrar and Paying Agent shall calculate the amount of Bonds not remarketed and notify the Authority and the Trustee, of the aggregate principal amount of Bonds expected to be purchased on such Mandatory Purchase Date by the Bond Registrar and Paying Agent which shall be equal to the Purchase Amount less the sum of (i) any Available Amount and (ii)

the aggregate principal amount of Bonds that will be remarketed by the Remarketing Agent on such Mandatory Purchase Date.

On each Mandatory Purchase Date the Remarketing Agent shall (i) pay to the Bond Registrar and Paying Agent proceeds from the remarketing of Bonds and all other amounts required to be so transferred by any supplemental remarketing agreement, and (ii) give notice to the Bond Registrar and Paying Agent of the purchasers of the Bonds to be purchased on such date and the denominations of Bonds to be delivered to each such purchaser. In the event that the Remarketing Agent does not provide such information or pay for the Remarketed Bonds at such time, the Bond Registrar and Paying Agent shall notify the Trustee of the portion of the Remarketing Amount not remarketed and request such funds.

Procedure for Purchase of Mandatory Purchase Bonds. The Mandatory Purchase Bonds to be purchased on each Mandatory Purchase Date shall be purchased by the Bond Registrar and Paying Agent at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to such Mandatory Purchase Date, from the following sources and in the following order of priority:

- (i) Bonds resold by the Remarketing Agent shall be purchased from remarketing proceeds made available to the Bond Registrar and Paying Agent; and
- (ii) any Available Amount in the Revenue Sharing Bond Account of the Revenue Fund; and
- (iii) to the extent moneys are not made available to purchase Mandatory Purchase Bonds on a Mandatory Purchase Date from the sources immediately preceding, from amounts on deposit in the Revenue Sharing Bond Account of the Revenue Fund.

Notwithstanding anything to the contrary contained herein, if there shall be on deposit in the appropriate accounts of the Revenue Fund, or if there shall be made available to the Bond Registrar and Paying Agent by the Remarketing Agent funds in an amount sufficient to pay the purchase price of Mandatory Purchase Bonds on any Mandatory Purchase Date applicable to such Bonds, such Bonds shall be deemed purchased with such moneys on such Mandatory Purchase Date, shall cease to bear interest as of such Mandatory Purchase Date whether or not such Bonds are tendered to the Bond Registrar and Paying Agent on such date, and the registered owners of such Mandatory Purchase Bonds shall have no rights with respect thereto or under this Bond Resolution except to receive the purchase price of such Bonds and when received by the Bond Registrar and Paying Agent such Bonds shall be canceled.

If the funds available for purchase of Mandatory Purchase Bonds are inadequate for the purchase of all Mandatory Purchase Bonds tendered on any Mandatory Purchase Date, all Bonds subject to such purchase shall continue to bear interest until paid at the interest rate last determined for such Bonds. In such event, the Bond Registrar and Paying Agent shall immediately: (i) return all tendered Bonds to the holders thereof, (ii) return all moneys received for the purchase of such Bonds to the persons providing such moneys, and (iii) notify all Bondholders in writing (A) as to whether an event has occurred which is or may become an Event of Default, and (B) of the rate of interest on such Bonds.

Disposition of Purchased Bonds. Mandatory Purchase Bonds tendered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date in accordance with the provisions of this Section shall be delivered by the Bond Registrar and Paying Agent as follows:

(i) Bonds resold by the Remarketing Agent shall be exchanged for other Bonds, as necessary to correspond to the denominations, and Types in which such Bonds have been sold by the Remarketing Agent, shall be registered in the names of the purchasers thereof and shall be delivered to such purchasers in accordance with the directions of the Remarketing Agent; and

(ii) Bonds the principal amount of which shall have been paid by the Bond Registrar and Paying Agent from amounts on deposit in any Fund or Account in accordance with clauses (ii) or (iii) under Procedure for Purchase of Mandatory Purchase Bonds above (other than amounts needed to compensate for original issue discount) shall be canceled by the Bond Registrar and Paying Agent.

If any Mandatory Purchase Bond (other than a Bond with respect to which a Notice of Election to Retain has been properly given) is not delivered to the Bond Registrar and Paying Agent on any Mandatory Purchase Date applicable to such Bond and such Bond was resold by the Remarketing Agent on such date, the Bond Registrar and Paying Agent shall register the transfer of such Bond to the purchaser thereof and the Authority shall execute and the Bond Registrar and Paying Agent shall authenticate and deliver a new Bond or Bonds and deliver the same in accordance with the provisions of the first paragraph of this Section, notwithstanding such non-delivery.

Resolution Constitutes Contract of Authority; No Recourse Against Members, Officers or Employees

In consideration of the purchase and acceptance by any and all of the Bonds issued under the Resolution, the Resolution shall be deemed to be and shall constitute a contract between the Authority and the Bondholders and the pledges made in the Resolution and the covenants and agreements therein set forth to be performed by the Authority shall be for the benefit, protection and security of (i) the Owners of any and all of each Type of the Bonds all of which, without regard to the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds of any Type over any other Bonds of the same Type, except as expressly provided in or permitted by the Resolution, (ii) on a subordinate basis in connection with the MBIA Insured Revenue Sharing Bonds, of MBIA, (iii) on a subordinate basis in connection with the Capital Guaranty Insured Bonds, of Capital Guaranty, and (iv) on a subordinate basis in connection with the AMBAC Insured Bonds, of AMBAC Assurance.

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or interest on the Bonds or for any claim based thereon or on the Resolution against any member, officer or employee of the Authority or any person executing the Bonds.

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

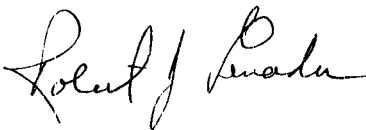
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

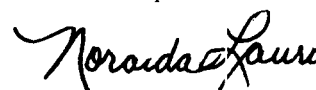


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee

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APPENDIX VI

**FORM OF LEGAL OPINION OF
BOND COUNSEL**

_____, 2003

Michigan Municipal Bond Authority
Treasury Building
Lansing, Michigan 48909

As Bond Counsel to the Michigan Municipal Bond Authority (the "Authority") we submit this opinion with respect to the issuance by the Authority of Local Government Loan Program Revenue Bonds, Series 2003B (the "Bonds").

The Bonds are authorized to be issued by Act No. 227, Public Acts of Michigan, 1985, as amended, (the "Act"), and by a bond resolution adopted by the Authority on September 21, 1989, as amended, and a supplemental resolution adopted by the Authority on _____, 2003 (together the "Resolutions").

The Bonds are being issued pursuant to the Act and the Resolutions to provide funding for the purchase of obligations (the "Municipal Obligations") to be issued by various governmental units in the State of Michigan (the "Governmental Units") as set forth in the Resolutions and to pay costs of issuance of the Bonds. The Bonds are subject to redemption prior to maturity as set forth in the Resolutions and the Bonds.

We have examined the Constitution and statutes of the State of Michigan (the "State"), the Resolutions, a specimen of a Bond and such other information, records and documents as we deem necessary, including a non-arbitrage and tax compliance certificate of the Authority, and based on such examination we are of the opinion under existing law that:

1. The Authority is duly created and validly existing as a body corporate with the power to adopt the Resolutions.

2. The Resolutions have been duly adopted by the Authority and constitute legal, valid and binding actions of the Authority in accordance with their terms.

3. The Bonds are valid and legally binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and accrued interest thereon solely from the security pledged therefor under the Resolutions. The Bonds are not a general obligation of the Authority. Neither the State nor any political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision of the State is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

4. The Authority is authorized to issue additional bonds of equal standing and priority of lien with the Bonds as provided in the Resolutions.

5. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Bonds in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. This opinion is subject to the condition that the Authority and the Governmental Units comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements to the extent permitted by law. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

6. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

In rendering the foregoing opinion, no opinion is expressed as to the validity or enforceability of any Municipal Obligation, and we have, with your approval, relied upon the opinion of bond counsel to each of the Governmental Units to the effect that interest on the Municipal Obligations is excluded from gross income for federal income tax purposes.

Enforceability of the Bonds and the Resolutions may be subject to the application of general principles of equity including those related to equitable subordination, and to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

**FORM OF APPROVING OPINION OF
ATTORNEY GENERAL**

[subject to modification and completion]

September 30, 2003

Michigan Municipal Bond Authority
Treasury Building
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Municipal Bond Authority (the "Authority") of bonds designated MICHIGAN MUNICIPAL BOND AUTHORITY LOCAL GOVERNMENT LOAN PROGRAM REVENUE BONDS, SERIES 2003B, in the aggregate principal amount of \$19,665,000 (the "Bonds"):

- (1) the Shared Credit Rating Act, 1985 PA 227, as amended (the "Act"), which created the Authority and empowers it to issue bonds;
- (2) a certified copy of Resolution No. 1989-15 adopted by the Authority on September 21, 1989, as amended, and Supplemental Resolution No. 2003-06 adopted by the Authority on July 31, 2003, authorizing the issuance of the Bonds (together, the "Resolutions"); and
- (3) one Bond, as executed, or a specimen thereof.

The Bonds are being issued for the purpose of providing funds which will be used to purchase the obligations (the "Municipal Obligations") of various governmental units (the "Governmental Units") within the State of Michigan (the "State"), and to pay costs of issuance of the Bonds.

In rendering this opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligations and I have relied upon the opinions of bond counsel to the Governmental Units to the effect that interest on the Municipal Obligations is excluded from gross income for federal tax purposes.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Act.
2. The Authority has the power under the laws of the State to adopt the Resolutions. The Resolutions have been duly adopted by the Authority, are in full force and effect in the form adopted, and are valid and binding actions of the Authority.
3. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Resolutions, which security includes the Municipal Obligations.
4. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of

the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

5. The Authority is authorized to issue additional bonds of equal standing and priority of lien with the Bonds, as described in the Bonds and in the Resolutions.

6. Interest on the Bonds (i) is excluded from gross income for federal income tax purposes and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the Authority and the Governmental Units comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with each such requirement to the extent permitted by law. Failure to comply with certain of those requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds and the Resolutions may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or whether the facts, figures, or financial information or other statements made respecting the Governmental Units, the State, or Ambac Assurance Corporation, contained any untrue statement of material fact or omitted to state a material fact necessary in order to make those statements, in the light of the circumstances under which they were made, not misleading.

Sincerely yours,

MIKE COX
Attorney General

Assistant Attorney General

APPENDIX VII

FORM OF CONTINUING DISCLOSURE UNDERTAKING

Michigan Municipal Bond Authority Local Government Loan Program Revenue Bonds, Series 2003B

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by the Michigan Municipal Bond Authority (the "Issuer") in connection with the issuance of its Local Government Loan Program Revenue Bonds, Series 2003B (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the Issuer on September 21, 1989, as amended and supplemented (the "Resolution"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the Issuer for the benefit of the Bondholders. The Issuer acknowledges that the State of Michigan (the "State") has undertaken no responsibility with respect to any notices or disclosures provided or required under this Undertaking and has no liability to any person, including any Bondholders, with respect to any such notices or disclosures. The Issuer acknowledges that this Undertaking does not address the scope of any application of Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act to the notices of the Listed Events provided or required to be provided by the Issuer pursuant to this Undertaking.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Undertaking, the following capitalized terms shall have the following meanings:

"Annual Financial Information" means (i) with respect to the Governmental Unit which is a Material Obligated Person as of the date hereof, financial information or operating data applicable to the Material Obligated Person's most recent fiscal year after the fiscal year ending on or after January 1, 2003 of the type listed on Exhibit A to this Undertaking together with Audited Financial Statements, if available or Unaudited Statements, (ii) with respect to each Governmental Unit who may become a Material Obligated Person at some future time, such financial information or operating data applicable to the Material Obligated Person's most recent fiscal year after the fiscal year ending on or after January 1, 2003 consisting of Audited Financial Statements, if available or Unaudited Financial Statements and to the extent not contained in those statements other material information concerning its revenues and expenses and results of operations, fund balances, significant incurrences of debt and litigation as required by the Rule, and (iii) with respect to the Issuer and the Bonds issued as Revenue Sharing Bonds, financial information or operating data contained under the caption "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS – Revenue Sharing Municipal Obligations," including the tables entitled "DISTRIBUTION OF STATE REVENUE SHARING PAYMENTS BY TYPE OF LOCAL GOVERNMENT" and "SOURCES OF STATE REVENUE SHARING DISTRIBUTIONS" and Appendix I of the Issuer's Official Statement dated September 19, 2003, and (iv) with respect to the Issuer and the Bonds issued as School Program Bonds, financial information or operating data contained under the caption "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS – School Program Municipal Obligations" and Appendix I of the Issuer's Official Statement dated September 19, 2003.

"Audited Financial Statements" means annual financial statements, if any, of a Material Obligated Person, audited by such auditor as shall then be required or permitted by State law, and prepared in

accordance with GAAP applied on a consistent basis provided, however, that the Material Obligated Person may from time to time in accordance with GAAP and subject to applicable federal or State legal requirements modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to (i) either each National Repository or the MSRB and (ii) the State Repository.

"Bondholders" shall mean the registered owner of any Bond and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"GAAP" means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Undertaking.

"Material Obligated Person" shall mean a Governmental Unit meeting the objective criteria established by the Issuer as provided in Section 4 of this Undertaking.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Tel: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Tel: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Tel: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
Fax: (212) 771-7391 (Primary Market Information)
E-mail: NRMSIR@FTID.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Tel: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the original offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended.

"SEC" shall mean the United States Securities and Exchange Commission.

"State Repository" shall mean any public or private repository or entity designated by the State and approved by the SEC as a state information depository for the purpose of the Rule. As of the date of this Undertaking, the only State Repository and its address and telephone numbers are as follows:

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Tel: (313) 963-0420
Fax: (313) 963-0943
E-mail for filings: jackie@macmi.com

"Unaudited Financial Statements" means the same as Audited Financial Statements except that they shall not have been audited.

SECTION 3. Reporting of Significant Events.

(a) The Issuer agrees to provide, or cause to be provided, in a timely manner notice of any of the following events, if material, in accordance with the Rule:

- (1) principal and interest payment delinquencies
- (2) non-payment related defaults
- (3) unscheduled draws on debt service reserves reflecting financial difficulties
- (4) unscheduled draws on credit enhancements reflecting financial difficulties
- (5) substitution of credit or liquidity providers, or their failure to perform
- (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds
- (7) modifications to rights of Bondholders
- (8) Bond calls
- (9) defeasances
- (10) release, substitution, or sale of property securing repayment of the Bonds
- (11) rating changes.

(b) The Issuer shall promptly cause a notice of the occurrence of a Listed Event, material under the Rule, to be filed with each National Repository or the MSRB, and with the State Repository, if any.

SECTION 4. Obligated Persons.

(a) The Issuer hereby determines that for bonds issued under the Resolution as AMBAC Insured Bonds that a Governmental Unit shall be a Material Obligated Person at any time that such Governmental Unit is an "obligated person" as defined in the Rule and (i) the aggregate principal amount of AMBAC Insurance Program Municipal Obligations issued by and outstanding for such Governmental Unit is equal to or in excess of twenty percent (20%) of the aggregate principal amount of all AMBAC Insurance Program Municipal Obligations then outstanding or (ii) for Governmental Units that are not issuers of AMBAC Insurance Program Municipal Obligations, but for whom financial and operating data is disclosed in an official statement of the Issuer in connection with such AMBAC Insurance Program Municipal Obligations, the aggregate principal amount outstanding of such AMBAC Insurance Program Municipal Obligations is equal to or in excess of twenty percent (20%) of the aggregate principal amount of all AMBAC Insurance Program Municipal Obligations then outstanding. Any AMBAC Insurance Program Municipal Obligations which have been legally defeased shall not be considered outstanding for the purpose of this Section 4(a).

The Issuer hereby further determines that for bonds issued under the Resolution as Revenue Sharing Bonds, since (i) all of the Revenue Sharing Municipal Obligations satisfy certain program eligibility requirements of the Issuer relating solely to the sources of payment for the Municipal Obligations, as described under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS – Revenue Sharing Municipal Obligations, " (or such similar future caption) in the Issuer's official statements regarding the Revenue Sharing Bonds, (ii) the Issuer relies upon the satisfaction of various program eligibility requirements relating solely to the sources of payment for these Municipal Obligations, and (iii) the Issuer does not make any assurances as to a Governmental Unit's ability to pay the principal of and interest on its Municipal Obligations, that Government Units issuing such Municipal Obligations shall not, for so long as such program eligibility requirements remain in place, constitute Material Obligated Persons.

The Issuer hereby further determines that for bonds issued under the Resolution as School Program Bonds, since (i) all of the School Program Municipal Obligations satisfy certain program eligibility requirements of the Issuer relating solely to the sources of payment for the Municipal Obligations, as described under "SOURCES OF PAYMENT FOR THE MUNICIPAL OBLIGATIONS –School Program Municipal Obligations, " (or such similar future caption) in the Issuer's official statements regarding the School Program Bonds, (ii) the Issuer relies upon the satisfaction of various program eligibility requirements relating solely to the sources of payment for these Municipal Obligations, and (iii) the Issuer does not make any assurances as to a Governmental Unit's ability to pay the principal of and interest on its Municipal Obligations, that Government Units issuing such Municipal Obligations shall not, for so long as such program eligibility requirements remain in place, constitute Material Obligated Persons.

(b) The Issuer agrees for the benefit of the Bondholders that, except as set forth in Section 4(e) below, it shall for each Material Obligated Person cause that Material Obligated Person to enter into an undertaking to disclose the following information:

(i) As soon as practicable but in no event later than nine (9) months after the end of each fiscal year of such Material Obligated Person, its applicable Annual Financial Information. The requirement to provide Annual Financial Information for any Material Obligated Person may be satisfied by filing a current official statement, prospectus or offering statement which contains such Annual Financial Information. It shall be sufficient for purposes of this Section 4(b) if Annual Financial Information is provided by specific reference to documents previously filed with either each Repository or the SEC. If such document is a "final

official statement" within the meaning of the Rule, it need only be available from the MSRB. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time. The Annual Financial Information shall be filed with each Repository. Notice of any failure to file Annual Financial Information shall be timely filed with (i) either the MSRB or each National Repository, and (ii) the State Repository, if any.

(ii) As soon as practicable, notice of any change in fiscal year for a Material Obligated Person shall be filed with (A) either the MSRB or each National Repository, and (B) the State Repository, and if a change is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

(c) The Issuer agrees for the benefit of the Bondholders that it shall disclose the following information with respect to the Revenue Sharing Bonds:

As soon as practicable but in no event later than nine (9) months after the end of each fiscal year, its applicable Annual Financial Information with respect to the Revenue Sharing Bonds. The requirement to provide Annual Financial Information may be satisfied by filing a current official statement, prospectus or offering statement which contains such Annual Financial Information. It shall be sufficient for purposes of this Section 4(c) if Annual Financial Information is provided by specific reference to documents previously filed with either each Repository or the SEC. If such document is a "final official statement" within the meaning of the Rule, it need only be available from the MSRB. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time. The Annual Financial Information shall be filed with each Repository. Notice of any failure to file Annual Financial Information shall be timely filed with (A) either the MSRB or each National Repository, and (B) the State Repository, if any.

(d) The Issuer agrees for the benefit of the Bondholders that it shall disclose the following information with respect to the School Program Bonds:

As soon as practicable but in no event later than nine (9) months after the end of each fiscal year, its applicable Annual Financial Information with respect to the School Program Bonds. The requirement to provide Annual Financial Information may be satisfied by filing a current official statement, prospectus or offering statement which contains such Annual Financial Information. It shall be sufficient for purposes of this Section 4(d) if Annual Financial Information is provided by specific reference to documents previously filed with either each Repository or the SEC. If such document is a "final official statement" within the meaning of the Rule, it need only be available from the MSRB. Annual Financial Information may be provided in one document or multiple documents and at one time or in part from time to time. The Annual Financial Information shall be filed with each Repository. Notice of any failure to file Annual Financial Information shall be timely filed with (A) either the MSRB or each National Repository, and (B) the State Repository, if any.

(e) If a Material Obligated Person is an agency or authority created by a county, city, village or township, the undertaking required by Section 4(b) may be satisfied by an undertaking entered into by the county, city, village or township which created that Material Obligated Person.

(f) At any time an entity once designated as a Material Obligated Person no longer meets the "objective criteria" as defined in Section 4 (a) above such entity shall no longer be considered a Material Obligated Person and accordingly Annual Financial Information for such entity will no longer be provided or required. In addition to any Material Obligated Person described in paragraph (a) above, the Issuer may in its discretion determine that any entity designated by the Issuer shall be considered a Material Obligated Person with respect to which Annual Financial Information will then be provided for so long as the Issuer shall determine.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Undertaking shall terminate upon the legal defeasance of the Bonds or upon the payment in full of all of the Bonds. Notwithstanding the foregoing, (i) if the Rule shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder and the Issuer has received an opinion of legal counsel experienced in the area of federal securities law to that effect, then such information shall no longer be required to be provided hereunder, and (ii) if and to the extent the Rule or any provision thereof shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of the Rule so declared, shall no longer be required to be provided hereunder.

SECTION 6. Dissemination Agent. The Executive Director on behalf of the Issuer, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment. Notwithstanding any other provision of this Undertaking, this Undertaking may be amended, without the consent of any Bondholder, if the Issuer receives an opinion of legal counsel experienced in the area of federal securities law to the effect that:

(i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Issuer, or types of activities in which the Issuer or the State is engaged;

(ii) this Undertaking, as so amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) such amendment does not materially impair the interests of the Bondholders.

SECTION 8. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 9. Failure to Comply. In the event of a failure of the Issuer to comply with any provision of this Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Undertaking. A failure to comply with this Undertaking shall not be deemed an Event of Default under the Resolution. The sole remedy under this Undertaking in the event of any failure of the Issuer to comply with

this Undertaking shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

SECTION 10. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Undertaking.

SECTION 11. Beneficiaries. This Undertaking shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter, and the Bondholders, and shall create no rights in any other person or entity.

SECTION 12. Governing Law. To the extent not governed by federal law, this Undertaking shall be governed by the law of the State.

MICHIGAN MUNICIPAL BOND AUTHORITY

Dated: _____, 2003

By: _____

Janet Hunter-Moore
Executive Director

EXHIBIT A

Annual Financial Information shall include information of the following type for the following Governmental Unit during such time as it may be a Material Obligated Person:

CHARTER COUNTY OF WAYNE

Information of the type included in Appendix III of the Official Statement dated September 19, 2003 for the Bonds under the headings:

1. Information Regarding Taxable Valuations, Tax Levies and Collections (new information only)
 - a. Ten Year History
 - b. Taxable Value By Use and Class
 - c. Principal Taxpayers
 - d. Property Tax Rates
 - e. Property Tax Levies and Collections

2. Information Regarding County
 - a. Tax Supported and Revenue Debt

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OFFICIAL STATEMENT

State of Michigan
Michigan Municipal Bond Authority



Jennifer M. Granholm, Governor
Jay B. Rising, State Treasurer and Chairperson

\$19,665,000
MICHIGAN MUNICIPAL BOND AUTHORITY
Local Government Loan Program Revenue Bonds,
Series 2003B

