FINANCIAL AUDIT
OF THE

TRANSITION IN THE OFFICE OF STATE TREASURER

DEPARTMENT OF TREASURY

As of January 5, 2003

27-257-03

"...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof."

– Article IV, Section 53 of the Michigan Constitution

Audit report information may be accessed at:
http://www.state.mi.us/audgen/

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

November 18, 2003

Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of January 5, 2003.

This report contains the receipt of State Treasurer and our independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of January 5, 2003 and the note to the financial schedule.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

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

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DEPARTMENT OF TREASURY

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, Jay B. Rising, serving as State Treasurer of the State of Michigan, effective January 6, 2003, hereby acknowledge receipt, possession, and control of the items listed below, as reported on by the Office of the Auditor General in its financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of January 5, 2003, from Julie Croll, my immediate predecessor:

State Treasurer's Common Cash	$ 2,626,361,423
Specific Funds' Investments	43,117,852,829
Other Cash and Investments	267,956,391
Collateral Pledged to the State Treasurer	934,310,000
Total	$ 46,946,480,643

This receipt is given pursuant to Section 12.10 of the *Michigan Compiled Laws.*

Dated 10-6-03 Jay B. Rising

ACKNOWLEDGEMENT:
Dated 10-6-03 Julie Croll

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedule

July 10, 2003

Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

We have audited the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of January 5, 2003. This financial schedule is the responsibility of the Department of Treasury's management. Our responsibility is to express an opinion on this financial schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer upon the transition in the Office of State Treasurer at midnight on January 5, 2003. Accordingly, this financial schedule does not purport to, and does not, constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of January 5, 2003, on the basis of accounting described in Note 1b and valued as described in Note 1c.

Sincerely,

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

TRANSITION IN THE OFFICE OF STATE TREASURER
Schedule of Cash and Investments
in the Possession or Under the Control of the State Treasurer
and Collateral Pledged to the State Treasurer
As of January 5, 2003

State Treasurer's Common Cash		
Cash on hand	$ 699	
Demand deposits	497,858,532	
Time deposits - regular	51,613,000	
Time deposits - Marina Loan Program	515,427	
Time deposits - Agricultural Loan Program	6,775,115	
Prime commercial paper	2,382,248,389	
Emergency municipal loans	46,948,207	
Michigan Sugar Beet Loan Program	5,000,000	
Total Assets	$ 2,990,959,369	
Outstanding warrants	(364,597,946)	
Total State Treasurer's Common Cash		$ 2,626,361,423
Specific Funds' Investments		
Game and Fish Protection Fund	$ 512,175	
Michigan Veterans' Trust Fund	34,370,114	
Game and Fish Protection Trust Fund	76,010,874	
Michigan Civilian Conservation Corps Endowment Fund	6,758,191	
Michigan Natural Resources Trust Fund	177,207,684	
Michigan State Parks Endowment Fund	89,256,255	
Children's Trust Fund	14,321,385	
Michigan Nongame Fish and Wildlife Fund	1,286,532	
State Lottery Fund	763,231,420	
Michigan Higher Education Assistance Authority	1,508,619	
Legislative Retirement Fund	141,055,540	
State Police Retirement Fund	912,159,728	
State Employees' Retirement Fund	8,585,487,840	
Public School Employees' Retirement Fund	31,171,560,766	
Judges' Retirement Fund	243,265,450	
Gifts, Bequests, and Deposits Investment Fund	6,439,027	
Michigan Education Trust	847,508,548	
Subtotal Specific Funds' Investments	$ 43,071,940,148	
Investment sales receivable	46,717,327	
Investment purchases payable	(804,645)	
Total Specific Funds' Investments		$ 43,117,852,829

This schedule continued on next page.

TRANSITION IN THE OFFICE OF STATE TREASURER
Schedule of Cash and Investments
in the Possession or Under the Control of the State Treasurer
and Collateral Pledged to the State Treasurer
As of January 5, 2003
Continued

Other Cash and Investments		
Mackinac Bridge Authority		
Cash and demand deposit accounts	$ 838,185	
Investments	21,905,294	
Fiscal Agent		
Michigan State Hospital Finance Authority		
Demand deposit account	173,674	
Investments	9,191,774	
Michigan Education Trust		
Demand deposit accounts	3,843,880	
Michigan Underground Storage Tank Financial Assurance Finance Authority		
Investments	130,546,601	
State Treasurer's Escrow and Paying Agent Fund		
Demand deposit account	686,773	
Investments	98,079,759	
Unclaimed Property Division		
Escheats Fund assets	2,690,451	
Total Other Cash and Investments		$ 267,956,391
Collateral Pledged to the State Treasurer		
For insurance companies	$ 348,679,000	
For State deposits	539,981,000	
For Michigan State Hospital Finance Authority	500,000	
For Michigan Education Trust	5,000,000	
For Family Independence Agency	40,150,000	
Total Collateral Pledged to the State Treasurer		$ 934,310,000
Total Cash, Investments, and Collateral Pledged to the State Treasurer		$ 46,946,480,643

The accompanying note is an integral part of the financial schedule.

Note to the Financial Schedule

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedule reports the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of January 5, 2003. The financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for cash, investments, and pledged collateral upon the transition in the Office of State Treasurer effective at midnight on January 5, 2003.

The financial schedule does not include certain Escheats Fund assets received by the State Treasurer but not recorded at January 5, 2003. The value of those assets has not been determined by the Department of Treasury personnel.

State Treasurer's Common Cash: The State Treasurer, under the authority provided by State statute, manages the State's common cash pool. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash pool. Outstanding warrants represent those State warrants issued and outstanding at January 5, 2003. These warrants represent an obligation of the State Treasurer's Common Cash.

Specific Funds' Investments: The State Treasurer, under authority provided by State statutes, manages most investments for the State of Michigan. Investment sales receivable and investment purchases payable represent trades of securities entered into prior to January 6, 2003 for which settlement was made after January 5, 2003.

Other Cash and Investments: The State Treasurer has various responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.

2. Acting as fiscal agent for the Michigan State Hospital Finance Authority, Michigan Education Trust, Michigan Underground Storage Tank Financial Assurance Finance Authority, and State Treasurer's Escrow and Paying Agent Fund.

3. Receiving and processing assets (unclaimed property) required by statute to be escheated to the State.

Collateral Pledged to the State Treasurer: The State Treasurer is responsible for or holds collateral for various purposes:

1. Collateral pledged by insurance companies as a condition of conducting business in the State.

2. Collateral pledged by banks to secure deposits of State money.

3. Collateral pledged by banks to secure demand deposits of the Michigan State Hospital Finance Authority and Michigan Education Trust.

4. Collateral pledged by a bank to secure the Family Independence Agency's child support collections.

b. Basis of Accounting and Presentation

The State Treasurer's Common Cash is reported on the cash basis of accounting. Specific funds' investments are reported on the accrual basis of accounting. Other cash and investments are reported on the cash basis of accounting.

The accompanying financial schedule presents the cash and investments in the possession or under the control of the State Treasurer and collateral

pledged to the State Treasurer. Accordingly, this financial schedule does not purport to, and does not, constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan in conformity with accounting principles generally accepted in the United States of America.

c. Valuations of Investments

All State Treasurer's Common Cash investments are reported at cost.

Specific funds' investments are reported at fair value, except for short-term investments, which are reported at cost. Fair value is measured as of the close of business on January 3, 2003 for publicly traded investments and on December 31, 2002 for all others.

Mackinac Bridge Authority investments are reported at fair value.

Michigan State Hospital Finance Authority investments are reported at fair value.

Michigan Underground Storage Tank Financial Assurance Finance Authority investments are reported at fair value.

State Treasurer's Escrow and Paying Agent Fund investments are reported at fair value.

Escheats Fund assets consist of:

1. Escheated investments reported at fair value.

2. Coins and currency reported at estimated value.

3. Various types of personal property reported at estimated value at the date initially recorded by the Department of Treasury (see Note 1a).

Collateral pledged to the State Treasurer is reported at par value.