

FINANCIAL AUDIT
OF THE
TRANSITION IN THE OFFICE OF STATE TREASURER
DEPARTMENT OF TREASURY
As of December 31, 2002

“...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 December 31, 2002.

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 December 31, 2002 and the note to the financial schedule.

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

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish". The signature is written in a cursive style with a long horizontal line extending to the left.

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

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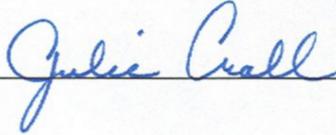
STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, Julie Croll, serving as State Treasurer of the State of Michigan, effective January 1, 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 December 31, 2002, from Douglas B. Roberts, my immediate predecessor:

| | |
|---|--------------------------|
| State Treasurer's Common Cash | \$ 2,567,095,880 |
| Specific Funds' Investments | 42,678,267,296 |
| Other Cash and Investments | 273,162,265 |
| Collateral Pledged to the State Treasurer | 934,310,000 |
| Total | <u>\$ 46,452,835,441</u> |

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

Dated 10-6-03 Julie Croll 

ACKNOWLEDGEMENT:

Dated 10-8-03 Douglas B. Roberts 



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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 December 31, 2002. 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 December 31, 2002. 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 December 31, 2002, on the basis of accounting described in Note 1b and valued as described in Note 1c.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is written in a cursive style with a long horizontal stroke at the beginning.

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 December 31, 2002

State Treasurer's Common Cash

| | |
|---|--------------------------|
| Cash on hand | \$ 1,537 |
| Demand deposits | 144,696,687 |
| Time deposits - regular | 51,613,000 |
| Time deposits - Marina Loan Program | 515,427 |
| Time deposits - Agricultural Loan Program | 6,775,115 |
| Prime commercial paper | 2,686,949,494 |
| Emergency municipal loans | 46,948,207 |
| Michigan Sugar Beet Loan Program | <u>5,000,000</u> |
| Total Assets | \$ 2,942,499,467 |
| Outstanding warrants | <u>(375,403,587)</u> |

Total State Treasurer's Common Cash \$ 2,567,095,880

Specific Funds' Investments

| | |
|---|-----------------------|
| Game and Fish Protection Fund | \$ 512,683 |
| Michigan Veterans' Trust Fund | 35,471,405 |
| Game and Fish Protection Trust Fund | 76,078,345 |
| Michigan Civilian Conservation Corps Endowment Fund | 6,761,798 |
| Michigan Natural Resources Trust Fund | 177,360,737 |
| Michigan State Parks Endowment Fund | 89,336,778 |
| Children's Trust Fund | 14,334,997 |
| Michigan Nongame Fish and Wildlife Fund | 1,288,055 |
| State Lottery Fund | 763,231,420 |
| Michigan Higher Education Assistance Authority | 1,508,619 |
| Legislative Retirement Fund | 139,946,336 |
| State Police Retirement Fund | 903,134,549 |
| State Employees' Retirement Fund | 8,505,739,074 |
| Public School Employees' Retirement Fund | 30,867,850,427 |
| Judges' Retirement Fund | 241,100,694 |
| Gifts, Bequests, and Deposits Investment Fund | 6,593,160 |
| Michigan Education Trust | <u>847,888,494</u> |
| Subtotal Specific Funds' Investments | \$ 42,678,137,570 |
| Investment sales receivable | 1,674,959 |
| Investment purchases payable | <u>(1,545,232)</u> |

Total Specific Funds' Investments \$ 42,678,267,296

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 December 31, 2002
Continued

Other Cash and Investments

| | | |
|--|----|---------------------------------|
| <u>Mackinac Bridge Authority</u> | | |
| Cash and demand deposit accounts | \$ | 738,807 |
| Investments | | 21,905,294 |
| | | |
| <u>Fiscal Agent</u> | | |
| <u>Michigan State Hospital Finance Authority</u> | | |
| Demand deposit account | | 273,674 |
| Investments | | 9,191,774 |
| | | |
| <u>Michigan Education Trust</u> | | |
| Demand deposit accounts | | 3,436,785 |
| | | |
| <u>Michigan Underground Storage Tank Financial Assurance Finance Authority</u> | | |
| Investments | | 130,541,890 |
| | | |
| <u>State Treasurer's Escrow and Paying Agent Fund</u> | | |
| Demand deposit account | | 943,332 |
| Investments | | 103,470,259 |
| | | |
| <u>Unclaimed Property Division</u> | | |
| Escheats Fund assets | | 2,660,450 |
| | | |
| Total Other Cash and Investments | | \$ 273,162,265 |
| | | |
| <u>Collateral Pledged to the State Treasurer</u> | | |
| 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 | | <u>\$ 934,310,000</u> |
| | | |
| Total Cash, Investments, and Collateral Pledged to the State Treasurer | | <u><u>\$ 46,452,835,441</u></u> |

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 December 31, 2002. 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 December 31, 2002.

The financial schedule does not include certain Escheats Fund assets received by the State Treasurer but not recorded at December 31, 2002. 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 December 31, 2002. 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 1, 2003 for which settlement was made after December 31, 2002.

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.

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.