

FINANCIAL AUDIT
OF THE

SCHOOL BOND LOAN FUND AND
SCHOOL LOAN BOND REDEMPTION FUND

DEPARTMENT OF TREASURY

October 1, 1995 through September 30, 1997

EXECUTIVE DIGEST

SCHOOL BOND LOAN FUND AND SCHOOL LOAN BOND REDEMPTION FUND

INTRODUCTION This report contains the results of our financial audit* of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, for the period October 1, 1995 through September 30, 1997.

AUDIT PURPOSE This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND Article 9, Section 16 of the State Constitution and Sections 388.921 - 388.985 of the *Michigan Compiled Laws* implemented the School Bond Loan Fund and the School Loan Bond Redemption Fund.

The School Bond Loan Program Section (SBLPS), Cash and Debt Management Division, Department of Treasury, is responsible for the administration of the two Funds. SBLPS's purpose is to provide for the issuance of State general obligation bonds to provide funds for loans to school districts to help finance bond debt requirements for

* See glossary on page 28 for definition.

capital improvement projects. SBLPS evaluates and approves school district loan applications, maintains program participation documentation, and maintains accounting records for the outstanding loans. As of September 30, 1997, outstanding loans receivable totaled \$153.1 million for principal and \$18.2 million for accrued interest.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of the Department's internal control structure* , including selected operational controls.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses*. However, we noted a reportable condition* related to monitoring school districts' loan repayments (Finding 1).

Audit Objective: To assess the Department's compliance with applicable statutes, State procedures, and Department policies and procedures that could have a material effect on the financial statements.

Conclusion: Our assessment of the Department's compliance with applicable statutes, State procedures, and Department policies and procedures did not disclose any instances of material noncompliance*.

Audit Objective: To audit the Funds' financial statements as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Funds' financial statements.

* See glossary on page 28 for definition.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the School Bond Loan Fund and the School Loan Bond Redemption Fund for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes one finding and recommendation. The Department agreed with the finding and will take steps to implement the recommendation.

The Department had complied with all 5 of our prior audit recommendations.

Page intentionally left blank

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

This is our report on the financial audit of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, for the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; and independent auditor's reports on the internal control structure, on compliance with laws and regulations; and on the financial statements. This report also contains the financial statements of the School Bond Loan Fund and the School Loan Bond Redemption Fund; notes to financial statements; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

Page intentionally left blank

TABLE OF CONTENTS

SCHOOL BOND LOAN FUND AND SCHOOL LOAN BOND REDEMPTION FUND DEPARTMENT OF TREASURY

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	9
Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up	10

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

Internal Control Structure	12
1. Monitoring School Districts' Loan Repayments	13
Compliance With Laws and Regulations	14
Financial Accounting and Reporting	14

INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL STATEMENTS

Independent Auditor's Report on the Internal Control Structure	15
Independent Auditor's Report on Compliance With Laws and Regulations	18
Independent Auditor's Report on the Financial Statements	19

School Bond Loan Fund Financial Statements	
Balance Sheet	21
Statement of Revenues, Expenditures, and Changes in Fund Balance	22
School Loan Bond Redemption Fund Financial Statements	
Balance Sheet	23
Statement of Revenues, Expenditures, and Changes in Fund Balance	24
Notes to Financial Statements	25
GLOSSARY	
Glossary of Acronyms and Terms	28

Description of Agency

Article 9, Section 16 of the State Constitution and Sections 388.921 - 388.985 of the *Michigan Compiled Laws* implemented the School Bond Loan Fund and the School Loan Bond Redemption Fund.

The School Bond Loan Program Section (SBLPS), Cash and Debt Management Division, Department of Treasury, is responsible for the administration of the two Funds. SBLPS's purpose is to provide for the issuance of State general obligation bonds to provide funds for loans to school districts to help finance bond debt requirements for capital improvement projects. SBLPS evaluates and approves school district loan applications, maintains program participation documentation, and maintains accounting records for the outstanding loans.

The outstanding loans to school districts are recorded as loans receivable in the General Fund. As of September 30, 1997, the outstanding loans receivable totaled \$153.1 million for principal and \$18.2 million for accrued interest.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, had the following objectives:

1. To assess the adequacy of the Department's internal control structure, including selected operational controls.
2. To assess the Department's compliance with applicable statutes, State procedures, and Department policies and procedures that could have a material effect on the financial statements.
3. To audit the Funds' financial statements as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Audit Scope

Our audit scope was to examine the financial and other records of the School Bond Loan Fund and the School Loan Bond Redemption Fund for the period October 1, 1995 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Agency Responses and Prior Audit Follow-Up

Our audit report includes one finding and recommendation. The Department agreed with the finding and will take steps to implement the recommendation.

The agency preliminary response which follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the

Department of Treasury to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

The Department had complied with all 5 of our prior audit recommendations.

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

INTERNAL CONTROL STRUCTURE

COMMENT

Background: The Department of Treasury issues loans to school districts to meet debt service requirements for qualified bonds* they have issued.

Audit Objective: To assess the adequacy of the Department's internal control structure, including selected operational controls.

Conclusion: Our assessment of the Department's internal control structure did not disclose any material weaknesses. However, we noted a reportable condition related to monitoring school districts' loan repayments.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including the School Bond Loan Fund and the School Loan Bond Redemption Fund, is affected to varying degrees by MAIN.

Because the School Bond Loan Fund and the School Loan Bond Redemption Fund's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in the Funds to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

* See glossary on page 28 for definition.

FINDING

1. Monitoring School Districts' Loan Repayments

The School Bond Loan Program Section (SBLPS) did not require school districts making loan repayments to submit supporting documentation for the debt fund balances they reported.

Section 388.959 of the *Michigan Compiled Laws* provides that a school district which receives a loan from the School Bond Loan Fund is to levy not less than seven mills on its assessed valuation for debt service costs. Proceeds from the levy are to be used to pay principal and interest on the bonded debt, and excess funds are to be remitted to the State until all loans are repaid with interest.

School districts maintain a debt fund for each qualified bond issue. Tax levy collections and debt service payments for a bond issue are recorded in their debt funds.

Districts that require loans for debt service costs receive loans for several years before they begin making repayment. Statute requires that districts begin making repayments on loans when tax levy collections exceed a bond's debt service requirement. For fiscal year 1996-97, loan repayments totaling approximately \$1.0 million were made by seven school districts.

Districts making loan repayments are required to annually submit a repayment schedule to SBLPS. The repayment schedule reports the amount that a district expects to repay within the next year. SBLPS uses these schedules to analyze whether loan repayments are being made in compliance with statute. As part of the repayment schedule, the district must report the debt fund balance for each qualified bond issue. However, in contrast to the requirement for loan applications, the district is not required to submit supporting documentation for the debt fund balances reported.

Requiring districts to submit supporting documentation for debt fund balances would enable SBLPS to more effectively monitor whether school districts are complying with statutory requirements for loan repayments.

RECOMMENDATION

We recommend that SBLPS require school districts making loan repayments to submit supporting documentation for the debt fund balances they report.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department will incorporate this recommendation into its current procedures, requiring borrowing and repaying school districts to submit supporting documentation.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess the Department's compliance with applicable statutes, State procedures, and Department policies and procedures that could have a material effect on the financial statements.

Conclusion: Our assessment of the Department's compliance with applicable statutes, State procedures, and Department policies and procedures did not disclose any instances of material noncompliance.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the School Bond Loan Fund's and the School Loan Bond Redemption Fund's financial statements as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the Funds' financial statements.

Independent Auditor's Report on
the Internal Control Structure

December 19, 1997

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the financial statements of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated December 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of the Department of Treasury is responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements for the fiscal years ended September 30, 1997 and September 30, 1996, we obtained an understanding of the School Bond Loan Fund and the School Loan Bond Redemption Fund's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the School Bond Loan Fund and the School Loan Bond Redemption Fund's internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is more fully described in Finding 1.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Department of Treasury is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the School Bond Loan Fund and the School Loan Bond Redemption Fund's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness. Three of the 29

reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the financial statements for the fiscal years ended September 30, 1997 and September 30, 1996.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

December 19, 1997

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the financial statements of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated December 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the School Bond Loan Fund and the School Loan Bond Redemption Fund is the responsibility of the Department of Treasury management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

December 19, 1997

Mr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Roberts:

We have audited the accompanying balance sheets of the School Bond Loan Fund and the School Loan Bond Redemption Fund, Department of Treasury, as of September 30, 1997 and September 30, 1996 and the related statements of revenues, expenditures, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Department of Treasury management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1b, the accompanying financial statements present only the School Bond Loan Fund and the School Loan Bond Redemption Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds and debt service funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the School Bond Loan Fund and the

School Loan Bond Redemption Fund as of September 30, 1997 and September 30, 1996 and the results of their operations for the fiscal years then ended on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 1997 on our consideration of the Department of Treasury's internal control structure and a report dated December 19, 1997 on its compliance with laws and regulations.

AUDITOR GENERAL

SCHOOL BOND LOAN FUND

Department of Treasury

Balance Sheet

As of September 30

	<u>1997</u>	<u>1996</u>
ASSETS		
Current Assets:		
Equity in Common Cash	\$ 23,642,644	\$ 68,492,533
Total Assets	<u>\$ 23,642,644</u>	<u>\$ 68,492,533</u>
LIABILITIES AND FUND BALANCE		
Total Liabilities	\$ 0	\$ 0
Fund Balance:		
Unreserved	\$ 23,642,644	\$ 68,492,533
Total Fund Balance	<u>\$ 23,642,644</u>	<u>\$ 68,492,533</u>
Total Liabilities and Fund Balance	<u>\$ 23,642,644</u>	<u>\$ 68,492,533</u>

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

SCHOOL BOND LOAN FUND
 Department of Treasury
 Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
REVENUES		
Miscellaneous	\$	\$
Total Revenues	\$ 0	\$ 0
EXPENDITURES		
Loan Issues	\$	\$ 433,532
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ (433,532)
OTHER FINANCING SOURCES (USES)		
Operating transfers out (Note 4)	\$ (44,849,889)	\$ (30,989,464)
Total Other Financing Sources (Uses)	\$ (44,849,889)	\$ (30,989,464)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (44,849,889)	\$ (31,422,995)
Fund Balance - Beginning of fiscal year	<u>68,492,533</u>	<u>99,915,528</u>
Fund Balance - End of fiscal year	<u>\$ 23,642,644</u>	<u>\$ 68,492,533</u>

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

SCHOOL LOAN BOND REDEMPTION FUND

Department of Treasury

Balance Sheet

As of September 30

	<u>1997</u>	<u>1996</u>
ASSETS		
Current Assets:		
Equity in Common Cash	\$	\$
	<u> </u>	<u> </u>
Total Assets	\$ 0	\$ 0
	<u> </u>	<u> </u>
		0
		<u> </u>
LIABILITIES AND FUND BALANCE		
Total Liabilities	\$ 0	\$ 0
	<u> </u>	<u> </u>
		0
		<u> </u>
Fund Balance:		
Unreserved	\$	\$
	<u> </u>	<u> </u>
Total Fund Balance	\$ 0	\$ 0
	<u> </u>	<u> </u>
		0
		<u> </u>
Total Liabilities and Fund Balance	\$ 0	\$ 0
	<u> </u>	<u> </u>

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

SCHOOL LOAN BOND REDEMPTION FUND
 Department of Treasury
 Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
REVENUES		
Miscellaneous	\$	\$
Total Revenues	\$ 0	\$ 0
EXPENDITURES		
Bond principal retirement	\$ 5,555,000	\$
Bond interest and fiscal charges	9,893,122	8,842,435
Total Expenditures	\$ 15,448,122	\$ 8,842,435
Excess of Revenues Over (Under) Expenditures	\$ (15,448,122)	\$ (8,842,435)
OTHER FINANCING SOURCES (USES)		
Operating Transfers From General Fund	\$ 15,448,122	\$ 8,842,435
Total Operating Transfers In	\$ 15,448,122	\$ 8,842,435
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0
Fund Balance - Beginning of fiscal year	_____	_____
Fund Balance - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>

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

Notes to Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and results of operations of the School Bond Loan Fund and the School Loan Bond Redemption Fund as of and for the fiscal years ended September 30, 1997 and September 30, 1996.

The Department of Treasury is responsible for administering the School Bond Loan Fund and the School Loan Bond Redemption Fund.

Each of these funds is a part of the State of Michigan's reporting entity. The School Bond Loan Fund is reported as a special revenue fund and the School Loan Bond Redemption Fund is reported as a debt service fund in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these financial statements relate directly to the School Bond Loan Fund and the School Loan Bond Redemption Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits, and General Long-Term Obligations.

b. Basis of Accounting and Presentation

The financial statements contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial statements present only the School Bond Loan Fund and the School Loan Bond Redemption Fund. Accordingly, they are not intended to present fairly the financial position and results of

operations of the State of Michigan or its special revenue funds and debt service funds.

Note 2 Description of Funds

a. School Bond Loan Fund

Article 9, Section 16 of the State Constitution and Sections 388.921 - 388.985 of the *Michigan Compiled Laws* authorized the issuance of State general obligation bonds to provide funds for loans to school districts. Loans are made for the payment of principal and interest on school district bonds under prescribed circumstances. The unreserved fund balance of this Fund represents the amount available to make additional loans. The proceeds of the State bonds, as well as bond anticipation notes, are credited to the Fund as an "Other Financing Source."

Operating transfers to the General Fund are recorded for the loans made to school districts. The loans receivable are recorded as assets in the General Fund. The outstanding loans receivable at September 30, 1997 totaled \$153.1 million for principal and \$18.2 million for accrued interest.

b. School Loan Bond Redemption Fund

Act 74, P.A. 1955, established this Fund to account for debt service on general obligation bonds issued to finance loans to school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans.

Operating transfers from the General Fund are received to finance the debt service requirements on the outstanding general obligation bonds and notes. Loan repayments from school districts are deposited in the General Fund.

Note 3 Budgeting and Budgetary Control

The School Bond Loan Fund and the School Loan Bond Redemption Fund financial statements do not include a statement of revenues, expenditures, and changes in fund balance - budget and actual. The State of Michigan does not adopt budgets for these funds.

Note 4 General Long-Term Obligations

Article 9, Section 16 of the State Constitution authorizes the State to borrow (without voter approval) for the purpose of providing loans to school districts. The General Fund finances only that portion of debt principal and interest requirements which exceeds loan repayments from school districts. These bonds are backed by the full faith and credit of the State.

School loan bonds issued and outstanding at September 30, 1997 and September 30, 1996, stated in millions, were:

	Amounts	Outstanding		Maturities		Interest
	Issued	9/30/97	9/30/96	First Year	Last Year	Rate
Series 1995	\$ 180.0	\$ 174.4	\$ 180.0	1997	2016	5.5%

Note 5 Contingent Liabilities for School District Bonds

Sections 388.951 - 388.963 of the *Michigan Compiled Laws* (Act 108, P.A. 1961, as amended) resulted in a contingent liability for the qualified bonds of school districts. Every school district with qualified bonds is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make loans from the General Fund. The principal amount of qualified bonds outstanding was \$7.3 billion at December 31, 1997 and \$6.3 billion at December 31, 1996. Total debt service requirements on these bonds including interest will approximate \$649.6 million in 1998 and \$559.0 million in 1997.

Glossary of Acronyms and Terms

financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MAIN	Michigan Administrative Information Network.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on financial statement/schedule amounts.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, of a magnitude that would be material in relation to the financial statements, would not be prevented or detected.
qualified bonds	School district bonds issued to fund capital improvement projects which have been approved by the Department of Treasury and a local election. A school district with qualified bonds is required to borrow and the State is required to lend it any amount necessary to avoid default on bond principal and interest payments.

reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
SBLPS	School Bond Loan Program Section.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>