



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...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://audgen.michigan.gov>



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

September 28, 2006

Mr. Robert J. Kleine
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of February 28, 2006 and April 9, 2006.

This report contains two receipts 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 February 28, 2006 and April 9, 2006 and the note to the financial schedule.

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

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 March 1, 2006, 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 February 28, 2006, from Jay B. Rising, my immediate predecessor:

State Treasurer's Common Cash Available	\$ 1,880,737,675
Specific Funds' Investments	\$ 55,342,436,360
Other Cash and Investments	\$ 65,305,381
Collateral Pledged to the State Treasurer	\$ 1,144,194,000

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

Dated

7-18-06

Julie Croll

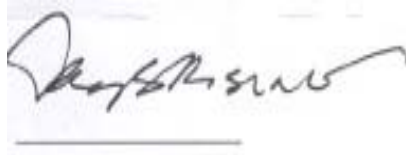


ACKNOWLEDGEMENT:

Dated

7.11.06

Jay B. Rising



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, Robert J. Kleine, serving as State Treasurer of the State of Michigan, effective April 10, 2006, 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 April 9, 2006, from Julie Croll, my immediate predecessor:

State Treasurer's Common Cash Available	\$ 1,206,329,712
Specific Funds' Investments	\$ 56,078,605,917
Other Cash and Investments	\$ 66,121,449
Collateral Pledged to the State Treasurer	\$ 1,103,692,000

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

Dated 7-03-06

Robert J. Kleine Robert J. Kleine

ACKNOWLEDGEMENT:

Dated 7-03-06

Julie Croll Julie Croll

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULE



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Schedule

Mr. Robert J. Kleine
State Treasurer
and
Ms. Julie Croll
Chief Deputy Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine and Ms. Croll:

We have audited the special-purpose financial 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 February 28, 2006 and April 9, 2006. 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 of the cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose 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 collateral pledged to the State Treasurer upon the transition in the Office of State Treasurer at midnight on February 28, 2006 and at midnight on April 9, 2006. 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 special-purpose 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 collateral pledged to the State Treasurer as of February 28, 2006 and April 9, 2006, on the basis of accounting described in Note 1b and valued as described in Note 1c.

This report is intended solely for the information and use of the State Treasurer and the Department of Treasury's management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

June 15, 2006

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 February 28, 2006 and April 9, 2006

	<u>February 28, 2006</u>	<u>April 9, 2006</u>
<u>State Treasurer's Common Cash</u>		
Cash on hand	\$ 267	\$ 377
Demand deposits	359,305,953	347,382,328
Time deposits - Marina Loan Program	127,500	127,500
Time deposits - Agricultural Loan Program	2,806,202	2,806,202
Prime commercial paper	1,771,191,828	1,026,697,914
Emergency municipal loans	50,246,775	50,246,775
Michigan Sugar Beet Loan Program	<u>4,000,000</u>	<u>3,750,000</u>
 Total Cash and Equities	 \$ 2,187,678,525	 \$ 1,431,011,096
 Outstanding warrants	 <u>(306,940,850)</u>	 <u>(224,681,384)</u>
 Total State Treasurer's Common Cash Available	 <u>\$ 1,880,737,675</u>	 <u>\$ 1,206,329,712</u>
 <u>Specific Funds' Investments</u>		
Game and Fish Protection Fund	\$ 1,725,325	\$ 1,693,299
Michigan Veterans' Trust Fund	43,350,743	42,610,002
Game and Fish Protection Trust Fund	98,053,506	97,906,984
Michigan Civilian Conservation Corps Endowment Fund	18,949,309	18,615,302
Michigan Natural Resources Trust Fund	274,071,424	274,461,399
Michigan State Parks Endowment Fund	113,396,495	112,431,804
Children's Trust Fund	21,012,544	20,695,638
Michigan Nongame Fish and Wildlife Fund	5,840,355	5,761,556
State Lottery Fund	469,407,772	464,987,293
Michigan Higher Education Assistance Authority	1,465,989	1,465,989
Michigan Education Trust Fund Plans B and C	530,898,441	509,667,818
Michigan Education Trust Fund Plan D	377,837,742	383,025,069
Mackinac Bridge Authority	21,405,790	22,372,743
Legislative Retirement Fund	181,238,095	179,570,553
State Police Retirement Fund	1,162,410,708	1,176,098,899
State Employees' Retirement Fund	10,463,482,024	10,598,900,468
Public School Employees' Retirement Fund	41,248,291,804	41,856,488,860
Judges' Retirement Fund	292,571,083	295,039,170
Gifts, Bequests, and Deposits Investment Fund	133,730	147,133
Children With Special Needs Fund	<u>16,893,482</u>	<u>16,665,937</u>
 Total Specific Funds' Investments	 <u>\$ 55,342,436,360</u>	 <u>\$ 56,078,605,917</u>

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 February 28, 2006 and April 9, 2006
Continued

	<u>February 28, 2006</u>	<u>April 9, 2006</u>
<u>Other Cash and Investments</u>		
Mackinac Bridge Authority		
Cash and demand deposit accounts	\$ 1,824,473	\$ 1,384,973
Fiscal Agent:		
Michigan State Hospital Finance Authority		
Demand deposit account	723,323	311,338
Investments	4,163,798	4,992,735
Michigan Education Trust		
Demand deposit accounts	2,755,970	9,945,666
Michigan Underground Storage Tank Financial Assurance Finance Authority		
Investments	92,558	93,184
State Treasurer's Escrow and Paying Agent Fund		
Demand deposit account	574,209	497,592
Investments	46,266,400	46,266,400
Unclaimed Property Division		
Escheats Fund assets	8,904,650	2,629,561
Total Other Cash and Investments	<u>\$ 65,305,381</u>	<u>\$ 66,121,449</u>
<u>Collateral Pledged to the State Treasurer</u>		
For insurance companies	\$ 379,541,000	\$ 380,899,000
For State deposits	664,153,000	622,293,000
For Michigan State Hospital Finance Authority	500,000	500,000
For Michigan Education Trust	5,000,000	5,000,000
For Department of Human Services	95,000,000	95,000,000
Total Collateral Pledged to the State Treasurer	<u>\$ 1,144,194,000</u>	<u>\$ 1,103,692,000</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 collateral pledged to the State Treasurer as of February 28, 2006 and April 9, 2006. The financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for cash, investments, and pledged collateral upon the transitions in the Office of State Treasurer effective at midnight on February 28, 2006 and at midnight on April 9, 2006 in accordance with Section 12.10 of the *Michigan Compiled Laws*.

The financial schedule does not include certain Escheats Fund assets received by the State Treasurer but not recorded at February 28, 2006 or at April 9, 2006. 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. 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.

Outstanding warrants represent those State warrants issued and outstanding at February 28, 2006 and at April 9, 2006. For the purposes of this schedule, these warrants are deducted from the State Treasurer's common cash because they represent an obligation of the pool and the amount is not considered available to meet future obligations.

Specific Funds' Investments: Specific funds' investments include both short- and long-term investments. The State Treasurer, under the authority provided by State statutes, manages most investments for the State of Michigan, which consist of stocks, corporate and government

bonds and notes, mortgages, real estate, venture capital, mutual funds, and other investments. In July 2004, the investments of four State retirement systems (Public School Employees', State Employees', State Police, and Judges') were consolidated to an investment pool structure. These retirement systems' investments represent a pro-rata share based on ownership of the investment pools.

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 Department of Human Services' child support collections.

b. Basis of Accounting and Presentation

The State Treasurer's common cash, cash, and investments are reported in accordance with generally accepted accounting principles.

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. Valuation of Investments

The State Treasurer's common cash investments are reported at cost.

Except for the four State retirement systems, specific funds' long-term investments are reported at fair value and short-term investments are reported at cost. The four retirement systems' investments are reported at the fair value of the various investment pools. The fair value of the investment pools is calculated using the value of the securities and other assets within the pools, which includes appreciation of asset values, accrued income, and amounts owed or due from the sale of securities as of the close of business on February 28, 2006 and on April 9, 2006.

The fair value of securities traded on a national or international exchange is calculated using the market value (last reported sales price) as of close of business on the above dates. Securities and other assets not traded on a national or international exchange are either valued based on equivalent values of comparable securities with similar yield or risk or at an estimated fair value.

Investments of the Michigan State Hospital Finance Authority, the Michigan Underground Storage Tank Financial Assurance Finance Authority, and the State Treasurer's Escrow and Paying Agent Fund are reported at fair value.

Escheats Fund assets consist of:

1. Escheated investments reported at fair value.
2. Coins and currency reported at estimated fair (market) value.
3. Various types of personal property reported at estimated market 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 (the face value of the bonds). On February 28, 2006 and April 9, 2006, collateral pledged by insurance companies included cash in the amount of \$1,785,000 and \$1,645,000, respectively, which was also included in demand deposits of the State Treasurer's common cash.

