



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 can be accessed at:

<http://audgen.michigan.gov>



Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit

State Building Authority

(A Blended Component Unit of the State of Michigan)

October 1, 2009 through September 30, 2010

Report Number:
071-0182-11

Released:
December 2010

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the State Building Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued unqualified opinions on the State Building Authority's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters

Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Background:

The State Building Authority was organized under Act 183, P.A. 1964, as amended. The Authority is governed by a Board of Trustees consisting of five members appointed by the Governor, with the advice and consent of the Senate.

The Authority is authorized to issue and sell bonds in an aggregate principal amount outstanding not to exceed \$2.7 billion. Not included in this limitation is the principal amount of bonds allocated to capitalized interest until the collection of the first rentals from the facility being financed; the principal amount of bonds allocated for debt service reserves and bond issuance expenses, including discounts and bond insurance premiums; and bonds issued to refund outstanding bonds. The Authority is also authorized to issue and sell commercial paper notes as a short-term funding source for capital

outlay projects prior to bonding. All bonds and commercial paper are limited obligations of the Authority and are not general obligations of the State or the Authority. The bonds are payable solely from equipment and facility lease payments, investment earnings, insurance proceeds, undisbursed bond proceeds retained by the Authority on a bond issue-specific basis, and any other assets pledged by the Authority to the bondholders.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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201 N. Washington Square
Lansing, Michigan 48913

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

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

December 29, 2010

Ms. Phyllis Mellon, Acting Director
Department of Technology, Management & Budget
and
Mr. Patrick Devlin, Chair
State Building Authority Board of Trustees
Lewis Cass Building
Lansing, Michigan

Dear Ms. Mellon and Mr. Devlin:

This is our report on the financial audit of the State Building Authority, a blended component unit of the State of Michigan, for the period October 1, 2009 through September 30, 2010.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, and the Authority financial statements and supplementary information. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT



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

Independent Auditor's Report on the Financial Statements

Ms. Phyllis Mellon, Acting Director
Department of Technology, Management & Budget
and
Mr. Patrick Devlin, Chair
State Building Authority Board of Trustees
Lewis Cass Building
Lansing, Michigan

Dear Ms. Mellon and Mr. Devlin:

We have audited the accompanying financial statements of the governmental activities and each major fund of the State Building Authority, a blended component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2010, which collectively comprise the Authority's basic financial statements as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements present only the State Building Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2010 and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the State Building Authority as of September 30, 2010 and the respective changes in financial position for the fiscal 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 our report dated December 21, 2010 on our consideration of the State Building Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 13 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We 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.

The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the State Building Authority's basic financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

AUDITOR GENERAL

December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of the State Building Authority (the "Authority") presents our discussion and analysis of the Authority's financial activities for the fiscal year ended September 30, 2010. The Authority is a blended component unit of the State of Michigan (the "State"). Readers are encouraged to consider this information in conjunction with the accompanying financial statements and notes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements consist of 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Because the Authority is a blended component unit of the State of Michigan, all the statements presented in this discussion focus on the Authority, an individual part of the government, reporting only on that one component within the State of Michigan.

- The financial statements and management's discussion and analysis provide both long- and short-term information about the Authority's overall financial status.
- Management's discussion and analysis provides a narrative overview of the financial statements from management's perspective.
- The basic financial statements provide information about the Authority's overall financial status.
- The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

Fiscal year ended September 30	Governmental Activities	
	2010	2009
Total net assets	\$ (18,214,324)	\$ (27,584,766)
Total assets	\$3,226,989,179	\$3,238,643,448
Short-term debt	\$ 81,335,000	\$ 161,170,000
Long-term liabilities	\$2,981,601,381	\$2,950,594,878
Total liabilities	\$3,245,203,504	\$3,266,228,214
Revenues:		
Program revenues, primarily lease revenue	\$ 156,467,538	\$ 147,798,097
General revenues, entirely investment earnings	\$ 4,769	\$ 690,462
Expenses, primarily interest on long-term debt	\$ 147,101,865	\$ 156,318,003
Change in net assets	\$ 9,370,442	\$ (7,829,444)

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority 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 only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 18 and 19 of this report.

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 Authority, like other state and local governments, uses fund accounting

to ensure and demonstrate compliance with finance-related legal requirements. The Authority maintains two governmental funds.

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 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 an adjustment column to facilitate this comparison between governmental funds and the government-wide financial statements.

The basic governmental fund financial statements can be found on pages 20 and 21 of this report.

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 fund financial statements. The notes to the financial statements can be found on pages 22 through 33 of this report.

Financial Analysis of the Authority

Net assets of the Authority increased \$9,370,442 from (\$27,584,766) to (\$18,214,324). The increase in net assets is the result of a decrease in interest expenses due to refunding activity in the prior fiscal year and an increase in the interest portion of lease revenue recognized on the government-wide financial statements.

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority'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 Authority's governmental funds reported a combined ending fund balance of \$131,619,383, an increase of \$74,602,836 in comparison with the prior year. This amount was comprised of debt service fund balance of \$221,274,754 and a fund balance deficit in the capital projects fund of \$89,655,371. This deficit has been and continues to be largely the result of the Authority's use of short-term debt to finance certain project costs in advance of bonding.

Long-Term Debt Activity

During the current year, the Authority issued \$113,480,000 in revenue bonds. The revenue bonds were issued to primarily fund various projects previously financed on a short-term basis through the Authority's commercial paper program. Further information on long-term debt can be found in Note 5 of the financial statements.

The Authority is authorized to issue and sell bonds in an aggregate principal amount outstanding not to exceed \$2.7 billion. As of September 30, 2010, the Authority's remaining bond authorization was approximately \$611 million.

Recent Events

On October 21, 2010, the Authority issued \$83,610,000 of commercial paper notes at an interest rate of .32% per annum maturing November 18, 2010.

On November 18, 2010, the Authority issued \$92,235,000 of commercial paper notes at an interest rate of .30% per annum maturing January 6, 2011.

There are no other known facts, decisions, or conditions in terms of events that occurred subsequent to September 30, 2010 through the date of this report that are expected to affect the Authority's financial position or results of operations.

BASIC FINANCIAL STATEMENTS

STATE BUILDING AUTHORITY
Statement of Net Assets
As of September 30, 2010

	Governmental Activities
ASSETS	
Current assets	
Investments (Note 2)	\$ 234,956,514
Accrued interest receivable	1,025
Current portion of leases receivable (Note 3)	98,155,182
Project costs in progress	93,616,295
Total current assets	\$ 426,729,016
Noncurrent assets	
Debt issuance costs, net	\$ 18,821,019
Leases receivable, net of current portion (Note 3)	2,781,439,144
Total noncurrent assets	\$ 2,800,260,163
Total assets	\$ 3,226,989,179
LIABILITIES	
Current liabilities	
Accounts payable and other liabilities	\$ 490,988
Due to State of Michigan	21,502,184
Accrued interest payable	57,258,950
Short-term debt (Note 4)	81,335,000
Current portion of long-term debt (Note 5)	103,015,000
Total current liabilities	\$ 263,602,123
Noncurrent liabilities	
Long-term debt, net of current portion (Note 5)	2,981,601,381
Total liabilities	\$ 3,245,203,504
NET ASSETS	
Unrestricted	\$ (18,214,324)

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

STATE BUILDING AUTHORITY
Statement of Activities
For the Fiscal Year Ended September 30, 2010

	Governmental Activities
EXPENSES	
General government - administration	\$ 1,834,365
Interest on long-term debt	144,160,713
Amortization of debt issue costs	1,106,788
Total expenses	\$ 147,101,865
 PROGRAM REVENUES	
Charges for services:	
Lease revenue (Note 1)	\$ 155,417,376
Other revenue	1,050,162
Total program revenues	\$ 156,467,538
Net revenue (expense)	\$ 9,365,672
 GENERAL REVENUES	
Unrestricted investment earnings	4,769
Change in net assets	\$ 9,370,442
 NET ASSETS	
Beginning of fiscal year	(27,584,766)
End of fiscal year	\$ (18,214,324)

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

STATE BUILDING AUTHORITY
Statement of Net Assets and Governmental Fund Balance Sheet
As of September 30, 2010

	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
ASSETS					
Current assets					
Investments (Note 2)	\$ 221,572,585	\$ 13,383,929	\$ 234,956,514	\$	\$ 234,956,514
Accrued interest receivable	1,025		1,025		1,025
Current portion of leases receivable (Note 3)				98,155,182	98,155,182
Project costs in progress				93,616,295	93,616,295
Total current assets	<u>\$ 221,573,610</u>	<u>\$ 13,383,929</u>	<u>\$ 234,957,539</u>	<u>\$ 191,771,477</u>	<u>\$ 426,729,016</u>
Noncurrent assets					
Debt issuance costs, net	\$	\$	\$	\$ 18,821,019	\$ 18,821,019
Leases receivable, net of current portion (Note 3)				2,781,439,144	2,781,439,144
Total noncurrent assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,800,260,163</u>	<u>\$ 2,800,260,163</u>
Total assets	<u>\$ 221,573,610</u>	<u>\$ 13,383,929</u>	<u>\$ 234,957,539</u>	<u>\$ 2,992,031,640</u>	<u>\$ 3,226,989,179</u>
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	\$ 298,856	\$ 192,132	\$ 490,988	\$	\$ 490,988
Due to State of Michigan		21,502,184	21,502,184		21,502,184
Accrued interest payable		9,983	9,983	57,248,967	57,258,950
Short-term debt (Note 4)		81,335,000	81,335,000		81,335,000
Current portion of long-term debt (Note 5)				103,015,000	103,015,000
Total current liabilities	<u>\$ 298,856</u>	<u>\$ 103,039,299</u>	<u>\$ 103,338,156</u>	<u>\$ 160,263,967</u>	<u>\$ 263,602,123</u>
Noncurrent liabilities					
Long-term debt, net of current portion (Note 5)				2,981,601,381	2,981,601,381
Total liabilities	<u>\$ 298,856</u>	<u>\$ 103,039,299</u>	<u>\$ 103,338,156</u>	<u>\$ 3,141,865,348</u>	<u>\$ 3,245,203,504</u>
FUND BALANCES					
Unreserved (deficit)	<u>\$ 221,274,754</u>	<u>\$ (89,655,371)</u>	<u>\$ 131,619,383</u>	<u>\$ (131,619,383)</u>	<u>\$ 0</u>
Total liabilities and fund balances	<u>\$ 221,573,610</u>	<u>\$ 13,383,929</u>	<u>\$ 234,957,539</u>		
NET ASSETS					
Unrestricted				<u>\$ (18,214,324)</u>	<u>\$ (18,214,324)</u>

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

STATE BUILDING AUTHORITY
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended September 30, 2010

	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
REVENUES					
Investment income	\$ 4,769	\$	\$ 4,769	\$	\$ 4,769
Lease revenue (Note 1)	230,157,184		230,157,184	(74,739,808)	155,417,376
Other revenue		1,050,162	1,050,162		1,050,162
Total revenues	\$ 230,161,953	\$ 1,050,162	\$ 231,212,115	\$ (74,739,808)	\$ 156,472,307
EXPENDITURES/EXPENSES					
Current - general government	\$ 1,606,958	\$ 218,892	\$ 1,825,849	\$ 8,516	\$ 1,834,365
Capital outlay		49,655,359	49,655,359	(49,655,359)	0
Capital outlay reimbursed to State of Michigan		1,400,000	1,400,000	(1,400,000)	0
Debt service:					
Principal	96,185,000		96,185,000	(96,185,000)	0
Interest and fiscal charges	120,070,622	299,638	120,370,261	23,790,452	144,160,713
Debt issuance costs		1,317,814	1,317,814	(1,317,814)	0
Amortization of debt issuance costs			0	1,106,788	1,106,788
Total expenditures/expenses	\$ 217,862,580	\$ 52,891,703	\$ 270,754,283	\$ (123,652,417)	\$ 147,101,865
Revenues over (under) expenditures/expenses	\$ 12,299,373	\$ (51,841,541)	\$ (39,542,167)	\$ 48,912,609	\$ 9,370,442
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	\$	\$ 113,480,000	\$ 113,480,000	\$ (113,480,000)	\$ 0
Premium on bonds issued		665,004	665,004	(665,004)	0
Transfers from other funds	2,086,324		2,086,324	(2,086,324)	0
Transfers to other funds		(2,086,324)	(2,086,324)	2,086,324	0
Total other financing sources (uses)	\$ 2,086,324	\$ 112,058,679	\$ 114,145,004	\$ (114,145,004)	\$ 0
Excess of revenues and other sources over (under) expenditures/expenses and other uses/ changes in net assets	\$ 14,385,698	\$ 60,217,139	\$ 74,602,836	\$ (65,232,395)	\$ 9,370,442
FUND BALANCES/NET ASSETS (DEFICIT)					
Beginning of fiscal year	206,889,056	(149,872,509)	57,016,547	(84,601,312)	(27,584,766)
End of fiscal year	\$ 221,274,754	\$ (89,655,371)	\$ 131,619,383	\$ (149,833,707)	\$ (18,214,324)

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

Notes to the Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Reporting Entity

The accompanying financial statements report the financial position and results of operations of the State Building Authority (the "Authority"), a blended component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2010. The Authority's activity is reported as debt service and capital projects funds within the governmental funds in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. In accordance with accounting principles generally accepted in the United States of America, there are no other component units included in this financial report.

The Authority was organized under Act 183, P.A. 1964, as amended, and is governed by a Board of Trustees consisting of five members appointed by the Governor, with the advice and consent of the Senate. The mission of the Authority is to construct, acquire, improve, enlarge, and lease facilities and equipment for use by the State or any of its agencies, including public institutions of higher education (universities and community colleges).

The Authority is authorized to issue and sell bonds in an aggregate principal amount outstanding not to exceed \$2.7 billion. Not included in this limitation is the principal amount of bonds allocated to capitalized interest until the collection of the first rentals from the facility being financed; the principal amount of bonds allocated for debt service reserves and bond issuance expenses, including discounts and bond insurance premiums; and bonds issued to refund outstanding bonds. The Authority is also authorized to issue and sell commercial paper notes as a short-term funding source for capital outlay projects prior to bonding. All bonds and commercial paper are limited obligations of the Authority and are not general obligations of the State or the Authority. The bonds are payable solely from equipment and facility lease payments, investment earnings, insurance proceeds, undisbursed bond proceeds retained by the Authority on a bond issue-specific basis, and any other assets pledged by the Authority to the bondholders.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority follows the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the Authority follows all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB statements.

The accompanying financial statements present only the State Building Authority. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America.

The Authority reports two major governmental funds: a debt service fund and a capital projects fund.

These notes relate directly to the Authority; the *SOMCAFR* provides more thorough disclosures of the State's significant accounting policies.

Investments - Investments are stated at fair value. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool share.

Leases Receivable - Leases receivable represent amounts due from the State of Michigan for rent obligations, net of unearned income. No allowance for uncollectible amounts has been provided.

Project Costs in Progress - Project costs consist of capital costs incurred to date on various building projects. As the building projects are completed, the assets will be leased to the State of Michigan.

Debt Issuance Costs - Debt issuance costs are being amortized using the effective interest method over the life of the related debt. Accumulated amortization was \$5,471,566 at September 30, 2010.

Federal Arbitrage Liability - Included in long-term debt is a provision for federal arbitrage rebate. Federal income tax regulations for certain debt issues require the Authority to rebate to the federal government the interest earned on invested debt proceeds in excess of interest paid. The Authority recorded an estimated liability of \$8,027 at September 30, 2010.

Long-Term Liabilities - Long-term liabilities are reported on the Authority's statement of net assets, net of the applicable bond premiums and discounts, as well as gains or losses on refunding, which are deferred and amortized over the life of the bonds using the effective interest method.

Lease Revenue - Lease payments are collected from the State of Michigan to satisfy the rent obligations under all of the project leases. Lease transactions are accounted for as direct financing leases whereby the present value of the future lease payments is recorded as a lease receivable using the interest rate implicit in the lease. Lease revenue is recognized as a constant percentage return on asset carrying values.

Note 2 Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

The Authority's investments are restricted by State statute to obligations of the State or U.S. government, obligations of which the principal and interest are guaranteed by the State or U.S. government, certificates of deposit of a financial institution, certain commercial paper, and repurchase agreements collateralized by U.S. government obligations and certain investment trusts. Certain other restrictions as to investments are contained in the bond resolution for each bond issue.

At September 30, 2010, the Authority had no deposits and had investments totaling \$234,956,514, which were entirely in U.S. Treasury money market accounts. The Authority's investments comply with State statutes.

Applicable risk disclosures under GASB Statement No. 40 for the Authority's investments are as follows.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's bond indentures restricted the Authority to investments rated in the highest category by Standard & Poor's and Moody's Investors Service. The Authority's investments in 2a7-like money market accounts with U.S. Bank and Bank of New York Mellon are both rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial credit risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Because investments in money market accounts are not evidenced by securities that exist in physical or book entry form, they are not exposed to custodial credit risk.

Note 3 Leases Receivable

The Authority's leasing operations consist of the leasing of facilities and equipment for use by the State of Michigan or any of its agencies under direct financing arrangements expiring in various years through November 30, 2044.

Following is a summary of the components of the Authority's net investment in direct financing leases at September 30, 2010:

Total minimum lease payments to be received	\$5,192,676,131
Less - Unearned income	2,313,081,805
Net leases receivable	\$2,879,594,326
Statement of net assets classification	
Current portion of leases receivable	\$ 98,155,182
Long-term portion of leases receivable	2,781,439,144
Total	\$2,879,594,326

Minimum lease payments to be received from the State of Michigan as of September 30, 2009 are as follows:

2011	\$ 232,599,276
2012	232,599,276
2013	232,966,594
2014	233,371,609
2015	233,796,876
2016 through 2045	4,027,342,500
Total	\$5,192,676,131

Note 4 Short-Term Debt - Notes Payable

The Authority issues commercial paper notes to fund capital projects prior to bonding. The notes are recorded at par at the time of issuance and are issued in conjunction with a bank letter of credit that has a maximum stated amount of \$536,986,302, of which not more than \$500,000,000 may be drawn with respect to the payment of principal of notes, and of which not more than \$36,986,302 may be drawn with respect to the payment of up to 270 days of interest on the notes. The notes have a maximum interest rate of 10% per annum. Issuance costs are capitalized as part of project costs. The interest rate on commercial paper notes outstanding as of September 30, 2010 is .32%.

Short-term debt activity for the fiscal year ended September 30, 2010 was as follows (in thousands):

Beginning balance	\$ 161,170
Additions	25,560
Reductions	<u>(105,395)</u>
Ending balance	<u><u>\$ 81,335</u></u>

Note 5 Long-Term Liabilities

Each series of bonds and related lease contracts are financing transactions under which the Authority issues revenue bonds for the purpose of constructing or acquiring facilities and/or equipment for lease to the State or institutions of higher education. Each issue of bonds is secured by and payable from the rentals. Rentals may only be used for payment of the bonds to which such lease pertains and may not be used for the payment of any other issue of bonds or any other unrelated obligation of the Authority. Each such lease (prior to execution) has been approved by the State Administrative Board; by concurrent resolution of the Legislature adopted by majority vote of the members elected to and serving in each house; by resolution of the Board of Trustees of the Authority; and, where required, by the governing body of the appropriate institution of higher education. The lease payments for all of the facilities and equipment are appropriated as an annual operating cost by the State.

The bonds represent limited obligations of the Authority and do not constitute general obligations of the Authority or general obligations or debts of the State or of any of the institutions of higher education within the meaning of any constitutional or statutory limitation. The Authority has no taxing power. The bonds are payable from lease revenue to be paid by the State pursuant to the provisions of the leases and certain other funds and revenue provided for in the bond resolution.

Outstanding Debt

Changes in long-term debt (excluding defeased bonds) for the fiscal year ended September 30, 2010 is as follows (in thousands):

	Date Sold	Number of Projects	Original Amount Issued	Average Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable (in thousands)									
2001 Series I Refunding	06/21/2001	17	\$ 419,730	5.262%	\$ 318,240	\$	\$ (14,015)	\$ 304,225	\$ 13,995
2003 Series I Refunding	07/30/2003	19	659,420	3.635%	440,870		(46,305)	394,565	48,620
2003 Series II Revenue and Refunding	12/01/2003	44	392,590	4.415%	174,530			174,530	
2004 Revenue and Refunding	05/27/2004	5	155,350	4.076%	109,465		(11,455)	98,010	11,945
2005 Series I Refunding	05/26/2005	16	293,395	4.838%	271,250		(7,065)	264,185	7,340
2005 Series II Revenue and Refunding	10/26/2005	7	242,805	4.656%	238,980		(2,090)	236,890	2,825
2006 Series IA:									
Serial	09/06/2006	n/a	438,300	4.798%	438,300			438,300	
Capital appreciation	09/06/2006	n/a	395,331	4.798%	456,740	22,019		478,759	
2006 Series IB	09/06/2006	n/a	13,735	4.798%	11,280		(2,585)	8,695	2,715
2007 Series I Multi-Modal	12/19/2007	15	96,500	Variable	94,700			94,700	3,500
2008 Series I Revenue and Refunding	11/20/2008	17	192,275	6.048%	192,275			192,275	1,670
2009 Series I Refunding	08/19/2009	n/a	222,080	4.852%	222,080		(12,670)	209,410	8,690
2009 Series II Revenue	12/10/2009	10	113,480	4.895%		113,480		113,480	1,715
Total bonds payable			<u>\$3,634,991</u>		<u>\$2,968,710</u>	<u>\$ 135,499</u>	<u>\$ (96,185)</u>	<u>\$ 3,008,024</u>	<u>\$ 103,015</u>
Accrued compensated absences					27	\$ 29	\$ (29)	27	
Arbitrage payable					0	8		8	
Add (deduct) deferred amounts:									
Discounts on bonds payable					(814)		28	(786)	
Premiums on bonds payable					100,520	665	(7,678)	93,507	
Loss on refunding					(21,663)		5,499	(16,164)	
Total long-term debt					<u>\$3,046,780</u>	<u>\$ 136,201</u>	<u>\$ (98,365)</u>	<u>\$3,084,616</u>	
Current portion								\$ 103,015	
Long-term portion								<u>2,981,601</u>	
								<u>\$ 3,084,616</u>	

The 2007 Series I Multi-Modal variable bonds currently bear interest at a weekly rate as determined through remarketing. Given the variable nature of the bonds, there are no stated annual debt service requirements. However, for purposes of the future debt service requirements that follow, estimated interest was computed using the weekly rate as of September 30, 2010 of .24%. Associated annual lease rentals are fully pledged for the payment of bond principal and interest on outstanding bonds. The 2007 Series I bonds are subject to optional redemption by the Authority in any rate mode and have a nominal final maturity of October 15, 2032.

The 2006 Series IA bonds include both serial and capital appreciation bonds. The capital appreciation bonds have an ultimate maturity value of \$891.8 million on October 15, 2030; the accreted value as of September 30,

2010 is \$478.7 million. For purposes of the following schedule, the accreted maturities of the capital appreciation bonds are shown in the principal maturities column.

Debt Service Requirements

The annual requirements to service the outstanding debt are as follows (in thousands):

Fiscal Year Ending September 30	Principal	Interest	Total
2011	\$ 103,015	\$ 122,619	\$ 225,634
2012	105,985	117,446	223,431
2013	109,460	111,947	221,407
2014	115,415	106,251	221,666
2015	121,625	100,273	221,898
2016 - 2020	650,605	416,535	1,067,140
2021 - 2025	691,815	322,582	1,014,397
2026 - 2030	607,655	231,955	839,610
2031 - 2035	562,390	140,068	702,458
2036 - 2040	306,805	29,955	336,760
2041 - 2043	46,270	96	46,366
Total	<u>\$3,421,040</u>	<u>\$1,699,727</u>	<u>\$5,120,767</u>

Interest to maturity for the bonds may be significantly less than the amount shown in the above table because many of the bonds (i.e., sinking fund bonds) will be called prior to their final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing, and accrued investment earnings are restricted to projects and debt service on the related bonds.

Defeased Debt

The Authority has defeased certain bond issues by placing refunding bond proceeds in an irrevocable trust to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements.

The following table summarizes the defeased bonds outstanding at September 30, 2010 (in thousands):

1997 Series II*	\$ 22,115
2000 Series I	94,385
2000 (MSP Phase II)	7,750
2001 Series I	66,985
2001 Series I Refunding	16,970
2001 Series II	105,385
2001 (MSP Phase III)	17,700
2002 (MSP Phase IV)	14,220
2002 Series III Refunding	171,310
2003 Series II Refunding	166,230
Total	<u><u>\$683,050</u></u>

- * The 1997 Series II bond issue includes capital appreciation bonds with an ultimate maturity value of \$23.4 million. The accreted value of this issue at year-end is \$22.1 million.

Note 6 Net Asset Deficit and Capital Projects Fund Balance Deficit

The Authority is reporting a net asset deficit balance of \$18,214,324 at September 30, 2010. Although the Authority's net assets increased by \$9,370,442 during the fiscal year, a net asset deficit balance exists due to the following: a) prior year interest on long-term debt exceeded the interest portion of lease revenue that is reported on the statement of activities and b) the prior year's beginning net assets were restated to correct prior period errors in leases receivable.

The capital projects fund is reporting a fund balance deficit of \$89,655,371. The capital projects fund balance deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund per GASB Statement No. 34.

Note 7 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan provides insurance coverage for the Authority.

Note 8 Adjustments

Following is an explanation of the adjustments between the governmental fund balance sheet and the statement of net assets, which reconciles fund balances to net assets:

Fund balances	\$ 131,619,383
Adjustments:	
Leases receivable are not current financial resources and therefore are not reported in the governmental funds	2,879,594,326
Project costs financed by short-term borrowings are temporarily capitalized for net assets until lease agreements are executed	93,616,295
Deferred charges for bond issuance costs are currently expensed in the governmental funds, whereas they are capitalized and amortized for net assets	18,821,019
Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(3,008,024,054)
Premiums on bonds are reported as other financing sources in the governmental funds, whereas they are capitalized and amortized for net assets (and added to bonds payable)	(93,507,505)
Discounts on bonds are reported as other financing uses in the governmental funds, whereas they are capitalized and amortized for net assets (and netted against bonds payable)	786,070
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net assets (and netted against bonds payable)	16,164,348
Accrued compensated absences and arbitrage payable are not recorded by governmental funds	(35,240)
Accrued interest payable on bonds is not recorded by governmental funds	(57,248,967)
Net assets	\$ (18,214,324)

Following is an explanation of the adjustments between the governmental fund statement of revenues, expenditures, and changes in fund balances and the statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balances	\$ 74,602,836
Adjustments:	
Amounts received for lease payments include both principal and interest for purposes of governmental funds. For the statement of activities, the principal portions are eliminated with that portion of the receipts that pertain to interest being recognized as lease revenues.	(74,739,808)
Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for net assets	96,185,000
Construction costs are recorded as expenditures in the funds, but increase leases receivable or project costs in progress for net assets	51,055,359
The issuance of bonds provides current financial resources and bond issuance costs and premiums are a use or source of current financial resources, respectively. These transactions do not affect net assets and therefore are eliminated:	
Bond and refunding bond proceeds	(113,480,000)
Bond issuance costs	1,317,814
Premium on bonds	(665,004)
Accrued interest expense on bonds, accretion of capital appreciation bonds, and the amortization of bond issuance costs, premiums, discounts, and loss on refunding are not recorded by governmental funds but are reported under interest and fiscal charges for purposes of net assets:	
Accrued interest expense	(3,922,468)
Accretion of capital appreciation bonds	(22,018,810)
Amortization of bond issuance costs	(1,106,788)
Amortization of premiums on bonds	7,677,719
Amortization of discounts on bonds	(28,032)
Amortization of loss on refunding	(5,498,860)
Estimated liability for arbitrage and accrued compensated absences is not recorded by governmental funds but is reported for purposes of determining net assets	(8,516)
Change in net assets	\$ 9,370,442

Note 9 Subsequent Events

On October 21, 2010, the Authority issued \$83,610,000 of commercial paper notes at an interest rate of .32% per annum maturing November 18, 2010.

On November 18, 2010, the Authority issued \$92,235,000 of commercial paper notes at an interest rate of .30% per annum maturing January 6, 2011.

SUPPLEMENTARY INFORMATION

STATE BUILDING AUTHORITY
Commercial Paper Program, Series 5
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$	\$ 3,442,147	\$ 3,442,147
Accrued interest receivable			
Total assets	\$ 0	\$ 3,442,147	\$ 3,442,147
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$ 192,132	\$ 192,132
Due to State of Michigan		15,531,310	15,531,310
Accrued interest payable		9,983	9,983
Short-term debt		81,335,000	81,335,000
Total liabilities	\$ 0	\$ 97,068,425	\$ 97,068,425
PROJECT EQUITY			
Unreserved (deficit)		(93,626,278)	(93,626,278)
Total liabilities and project equity	\$ 0	\$ 3,442,147	\$ 3,442,147
OUTSTANDING DEBT (short-term)			\$ 81,335,000

STATE BUILDING AUTHORITY
Commercial Paper Program, Series 5
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue			0
Other revenue		996,500	996,500
Total revenues	\$ 0	\$ 996,500	\$ 996,500
EXPENDITURES			
Current - general government	\$	\$ 118,892	\$ 118,892
Capital outlay		37,526,675	37,526,675
Capital outlay reimbursed to State of Michigan		1,400,000	1,400,000
Debt service:			
Principal			0
Interest and fiscal charges		299,638	299,638
Debt issuance costs			0
Total expenditures	\$ 0	\$ 39,345,205	\$ 39,345,205
Revenues over (under) expenditures	\$ 0	\$ (38,348,705)	\$ (38,348,705)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds		99,341,154	99,341,154
Total other financing sources (uses)	\$ 0	\$ 99,341,154	\$ 99,341,154
Net change in project equity	\$ 0	\$ 60,992,449	\$ 60,992,449
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year		(154,618,727)	(154,618,727)
End of fiscal year	\$ 0	\$ (93,626,278)	\$ (93,626,278)

STATE BUILDING AUTHORITY
 1998 Revenue Refunding Bonds, Series I
 Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$	\$	\$ 0
Accrued interest receivable			0
Total assets	\$ 0	\$ 0	\$ 0
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)			0
Total liabilities and project equity	\$ 0	\$ 0	\$ 0
OUTSTANDING DEBT (long-term)			\$ 0

STATE BUILDING AUTHORITY
1998 Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue			0
Other revenue			0
	<hr/>		
Total revenues	\$ 0	\$ 0	\$ 0
EXPENDITURES			
Current - general government	\$	\$	\$ 0
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal			0
Interest and fiscal charges			0
Debt issuance costs			0
	<hr/>		
Total expenditures	\$ 0	\$ 0	\$ 0
	<hr/>		
Revenues over (under) expenditures	\$ 0	\$ 0	\$ 0
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds	(996)		(996)
	<hr/>		
Total other financing sources (uses)	\$ (996)	\$ 0	\$ (996)
	<hr/>		
Net change in project equity	\$ (996)	\$ 0	\$ (996)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	996		996
	<hr/>		
End of fiscal year	\$ 0	\$ 0	\$ 0
	<hr/> <hr/>		

STATE BUILDING AUTHORITY
 2001 Revenue Refunding Bonds, Series I
 Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 29,616,739	\$	\$ 29,616,739
Accrued interest receivable			0
	\$ 29,616,739	\$ 0	\$ 29,616,739
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	29,616,739		29,616,739
	\$ 29,616,739	\$ 0	\$ 29,616,739
OUTSTANDING DEBT (long-term)			\$ 304,225,000

STATE BUILDING AUTHORITY
2001 Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	30,118,512		30,118,512
Other revenue			0
Total revenues	\$ 30,118,512	\$ 0	\$ 30,118,512
EXPENDITURES			
Current - general government	\$ 2,500	\$	\$ 2,500
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	14,015,000		14,015,000
Interest and fiscal charges	16,554,621		16,554,621
Debt issuance costs			0
Total expenditures	\$ 30,572,121	\$ 0	\$ 30,572,121
Revenues over (under) expenditures	\$ (453,609)	\$ 0	\$ (453,609)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds			0
Total other financing sources (uses)	\$ 0	\$ 0	\$ 0
Net change in project equity	\$ (453,609)	\$ 0	\$ (453,609)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	30,070,348		30,070,348
End of fiscal year	\$ 29,616,739	\$ 0	\$ 29,616,739

STATE BUILDING AUTHORITY
2003 Revenue Refunding Bonds, Series I
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 82,085,129	\$	\$ 82,085,129
Accrued interest receivable			0
Total assets	\$ 82,085,129	\$ 0	\$ 82,085,129
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	82,085,129		82,085,129
Total liabilities and project equity	\$ 82,085,129	\$ 0	\$ 82,085,129
OUTSTANDING DEBT (long-term)			\$ 394,565,000

STATE BUILDING AUTHORITY
2003 Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	72,247,131		72,247,131
Other revenue			0
Total revenues	\$ 72,247,131	\$ 0	\$ 72,247,131
EXPENDITURES			
Current - general government	\$ 238,746	\$	\$ 238,746
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	46,305,000		46,305,000
Interest and fiscal charges	21,750,738		21,750,738
Debt issuance costs			0
Total expenditures	\$ 68,294,484	\$ 0	\$ 68,294,484
Revenues over (under) expenditures	\$ 3,952,647	\$ 0	\$ 3,952,647
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds	(4,208,420)		0
Total other financing sources (uses)	\$ (4,208,420)	\$ 0	\$ (4,208,420)
Net change in project equity	\$ (255,773)	\$ 0	\$ (255,773)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	82,340,901		82,340,901
End of fiscal year	\$ 82,085,129	\$ 0	\$ 82,085,129

STATE BUILDING AUTHORITY
 2003 Revenue and Refunding Revenue Bonds, Series II
 Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 6,772,455	\$	\$ 6,772,455
Accrued interest receivable			0
Total assets	\$ 6,772,455	\$ 0	\$ 6,772,455
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	6,772,455		6,772,455
Total liabilities and project equity	\$ 6,772,455	\$ 0	\$ 6,772,455
OUTSTANDING DEBT (long-term)			\$ 174,530,000

STATE BUILDING AUTHORITY
2003 Revenue and Refunding Revenue Bonds, Series II
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	8,726,582		8,726,582
Other revenue			0
Total revenues	\$ 8,726,582	\$ 0	\$ 8,726,582
EXPENDITURES			
Current - general government	\$ 750	\$	\$ 750
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal			0
Interest and fiscal charges	8,726,500		8,726,500
Debt issuance costs			0
Total expenditures	\$ 8,727,250	\$ 0	\$ 8,727,250
Revenues over (under) expenditures	\$ (668)	\$ 0	\$ (668)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds	(186,450)		(186,450)
Total other financing sources (uses)	\$ (186,450)	\$ 0	\$ (186,450)
Net change in project equity	\$ (187,118)	\$ 0	\$ (187,118)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	6,959,573		6,959,573
End of fiscal year	\$ 6,772,455	\$ 0	\$ 6,772,455

STATE BUILDING AUTHORITY
 2004 Revenue and Refunding Revenue Bonds
 Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 14,477,601	\$	\$ 14,477,601
Accrued interest receivable			0
Total assets	\$ 14,477,601	\$ 0	\$ 14,477,601
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	14,477,601		14,477,601
Total liabilities and project equity	\$ 14,477,601	\$ 0	\$ 14,477,601
OUTSTANDING DEBT (long-term)			\$ 98,010,000

STATE BUILDING AUTHORITY
2004 Revenue and Refunding Revenue Bonds
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	17,029,992		17,029,992
Other revenue			0
	<hr/>		
Total revenues	\$ 17,029,992	\$ 0	\$ 17,029,992
EXPENDITURES			
Current - general government	\$ 21,582	\$	\$ 21,582
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	11,455,000		11,455,000
Interest and fiscal charges	5,334,160		5,334,160
Debt issuance costs			
	<hr/>		
Total expenditures	\$ 16,810,742	\$ 0	\$ 16,810,742
	<hr/>		
Revenues over (under) expenditures	\$ 219,250	\$ 0	\$ 219,250
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds			0
	<hr/>		
Total other financing sources (uses)	\$ 0	\$ 0	\$ 0
	<hr/>		
Net change in project equity	\$ 219,250	\$ 0	\$ 219,250
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	14,258,350		14,258,350
	<hr/>		
End of fiscal year	\$ 14,477,601	\$ 0	\$ 14,477,601
	<hr/> <hr/>		

STATE BUILDING AUTHORITY
2005 Revenue Refunding Bonds, Series I
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 19,061,124	\$	\$ 19,061,124
Accrued interest receivable	611		611
	\$ 19,061,735	\$ 0	\$ 19,061,735
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	19,061,735		19,061,735
	\$ 19,061,735	\$ 0	\$ 19,061,735
OUTSTANDING DEBT (long-term)			\$ 264,185,000

STATE BUILDING AUTHORITY
2005 Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$ 1,355	\$	\$ 1,355
Lease revenue	20,544,996		20,544,996
Other revenue			0
Total revenues	\$ 20,546,351	\$ 0	\$ 20,546,351
EXPENDITURES			
Current - general government	\$ 43,281	\$	\$ 43,281
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	7,065,000		7,065,000
Interest and fiscal charges	13,328,700		13,328,700
Debt issuance costs			0
Total expenditures	\$ 20,436,981	\$ 0	\$ 20,436,981
Revenues over (under) expenditures	\$ 109,370	\$ 0	\$ 109,370
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds			0
Total other financing sources (uses)	\$ 0	\$ 0	\$ 0
Net change in project equity	\$ 109,370	\$ 0	\$ 109,370
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	18,952,365		18,952,365
End of fiscal year	\$ 19,061,735	\$ 0	\$ 19,061,735

STATE BUILDING AUTHORITY
2005 Revenue and Revenue Refunding Bonds, Series II
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 12,892,138	\$	\$ 12,892,138
Accrued interest receivable	414		414
	\$ 12,892,552	\$ 0	\$ 12,892,552
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	12,892,552		12,892,552
	\$ 12,892,552	\$ 0	\$ 12,892,552
OUTSTANDING DEBT (long-term)			\$ 236,890,000

STATE BUILDING AUTHORITY
2005 Revenue and Revenue Refunding Bonds, Series II
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$ 873	\$	\$ 873
Lease revenue	14,519,712		14,519,712
Other revenue			0
Total revenues	\$ 14,520,585	\$ 0	\$ 14,520,585
EXPENDITURES			
Current - general government	\$ 32,337	\$	\$ 32,337
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	2,090,000		2,090,000
Interest and fiscal charges	11,696,134		11,696,134
Debt issuance costs			0
Total expenditures	\$ 13,818,471	\$ 0	\$ 13,818,471
Revenues over (under) expenditures	\$ 702,113	\$ 0	\$ 702,113
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds			0
Total other financing sources (uses)	\$ 0	\$ 0	\$ 0
Net change in project equity	\$ 702,113	\$ 0	\$ 702,113
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	12,190,438		12,190,438
End of fiscal year	\$ 12,892,552	\$ 0	\$ 12,892,552

STATE BUILDING AUTHORITY
2006 Revenue Refunding Bonds, Series IA and IB
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 19,159,588	\$	\$ 19,159,588
Accrued interest receivable			0
	\$ 19,159,588	\$ 0	\$ 19,159,588
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	19,159,588		19,159,588
	\$ 19,159,588	\$ 0	\$ 19,159,588
OUTSTANDING DEBT (long-term)*			\$ 1,338,770,000

* The outstanding debt for 2006 Series IA includes the fully accreted value related to its capital appreciation bonds.

STATE BUILDING AUTHORITY
2006 Revenue Refunding Bonds, Series IA and IB
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$ 2,541	\$	\$ 2,541
Lease revenue	25,090,291		25,090,291
Other revenue			0
Total revenues	\$ 25,092,832	\$ 0	\$ 25,092,832
EXPENDITURES			
Current - general government	\$ 750	\$	\$ 750
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	2,585,000		2,585,000
Interest and fiscal charges	22,440,443		22,440,443
Debt issuance costs			0
Total expenditures	\$ 25,026,193	\$ 0	\$ 25,026,193
Revenues over (under) expenditures	\$ 66,639	\$ 0	\$ 66,639
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds	(83,400)		(83,400)
Total other financing sources (uses)	\$ (83,400)	\$ 0	\$ (83,400)
Net change in project equity	\$ (16,761)	\$ 0	\$ (16,761)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	19,176,349		19,176,349
End of fiscal year	\$ 19,159,588	\$ 0	\$ 19,159,588

STATE BUILDING AUTHORITY
2007 Multi-Modal Revenue Bonds, Series I
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 5,279,484	\$	\$ 5,279,484
Accrued interest receivable			0
	\$ 5,279,484	\$ 0	\$ 5,279,484
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ 298,856	\$	\$ 298,856
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
	\$ 298,856	\$ 0	\$ 298,856
PROJECT EQUITY			
Unreserved (deficit)	4,980,628		4,980,628
	\$ 5,279,484	\$ 0	\$ 5,279,484
 OUTSTANDING DEBT (long-term)			 \$ 94,700,000

STATE BUILDING AUTHORITY
2007 Multi-Modal Revenue Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	7,172,004		7,172,004
Other revenue			0
Total revenues	\$ 7,172,004	\$ 0	\$ 7,172,004
EXPENDITURES			
Current - general government	\$ 1,113,096	\$	\$ 1,113,096
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal			0
Interest and fiscal charges	217,291		217,291
Debt issuance costs			0
Total expenditures	\$ 1,330,387	\$ 0	\$ 1,330,387
Revenues over (under) expenditures	\$ 5,841,617	\$ 0	\$ 5,841,617
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds	6		6
Transfers to other funds	(8,703,664)	(326,231)	(9,029,895)
Total other financing sources (uses)	\$ (8,703,658)	\$ (326,231)	\$ (9,029,889)
Net change in project equity	\$ (2,862,041)	\$ (326,231)	\$ (3,188,272)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	7,842,669	326,231	8,168,900
End of fiscal year	\$ 4,980,628	\$ 0	\$ 4,980,628

STATE BUILDING AUTHORITY
2008 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 7,253,126	\$ 2,685,059	\$ 9,938,184
Accrued interest receivable			0
Total assets	\$ 7,253,126	\$ 2,685,059	\$ 9,938,184
 LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan		193	193
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 193	\$ 193
 PROJECT EQUITY			
Unreserved (deficit)	7,253,126	2,684,865	9,937,991
Total liabilities and project equity	\$ 7,253,126	\$ 2,685,059	\$ 9,938,184
 OUTSTANDING DEBT (long-term)			\$ 192,275,000

STATE BUILDING AUTHORITY
2008 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	9,114,984		9,114,984
Other revenue		53,662	53,662
Total revenues	\$ 9,114,984	\$ 53,662	\$ 9,168,646
EXPENDITURES			
Current - general government	\$ 750	\$	\$ 750
Capital outlay		1,788,784	1,788,784
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal			0
Interest and fiscal charges	11,187,163		11,187,163
Debt issuance costs			0
Total expenditures	\$ 11,187,913	\$ 1,788,784	\$ 12,976,696
Revenues over (under) expenditures	\$ (2,072,929)	\$ (1,735,122)	\$ (3,808,050)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds			0
Transfers to other funds	669,609		669,609
Total other financing sources (uses)	\$ 669,609	\$ 0	\$ 669,609
Net change in project equity	\$ (1,403,320)	\$ (1,735,122)	\$ (3,138,441)
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	8,656,445	4,419,987	13,076,432
End of fiscal year	\$ 7,253,126	\$ 2,684,865	\$ 9,937,991

STATE BUILDING AUTHORITY
2009 Revenue Refunding Bonds, Series I
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 17,971,906	\$	\$ 17,971,906
Accrued interest receivable			0
Total assets	\$ 17,971,906	\$ 0	\$ 17,971,906
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan			0
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 0	\$ 0
PROJECT EQUITY			
Unreserved (deficit)	17,971,906		17,971,906
Total liabilities and project equity	\$ 17,971,906	\$ 0	\$ 17,971,906
OUTSTANDING DEBT (long-term)			\$ 209,410,000

STATE BUILDING AUTHORITY
2009 Revenue Refunding Bonds, Series I
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	18,495,780		18,495,780
Other revenue			0
Total revenues	\$ 18,495,780	\$ 0	\$ 18,495,780
EXPENDITURES			
Current - general government	\$ 153,165	\$	\$ 153,165
Capital outlay			0
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal	12,670,000		12,670,000
Interest and fiscal charges	6,980,875		6,980,875
Debt issuance costs			0
Total expenditures	\$ 19,804,040	\$ 0	\$ 19,804,040
Revenues over (under) expenditures	\$ (1,308,260)	\$ 0	\$ (1,308,260)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$	\$ 0
Premium on bonds issued			0
Transfers from other funds	326,224		326,224
Transfers to other funds	12,513,321		12,513,321
Total other financing sources (uses)	\$ 12,839,546	\$ 0	\$ 12,839,546
Net change in project equity	\$ 11,531,285	\$ 0	\$ 11,531,285
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year	6,440,621		6,440,621
End of fiscal year	\$ 17,971,906	\$ 0	\$ 17,971,906

STATE BUILDING AUTHORITY
2009 Revenue Bonds, Series II
Project Balance Sheet
As of September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 7,003,296	\$ 7,256,724	\$ 14,260,020
Accrued interest receivable			0
Total assets	\$ 7,003,296	\$ 7,256,724	\$ 14,260,020
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$	\$	\$ 0
Due to State of Michigan		5,970,681	5,970,681
Accrued interest payable			0
Short-term debt			0
Total liabilities	\$ 0	\$ 5,970,681	\$ 5,970,681
PROJECT EQUITY			
Unreserved (deficit)	7,003,296	1,286,043	8,289,339
Total liabilities and project equity	\$ 7,003,296	\$ 7,256,724	\$ 14,260,020
OUTSTANDING DEBT (long-term)			\$ 113,480,000

STATE BUILDING AUTHORITY
2009 Revenue Bonds, Series II
Schedule of Project Revenues, Expenditures, and Changes in Project Equity
For the Fiscal Year Ended September 30, 2010

	Debt Service Activities	Capital Projects Activities	Total
REVENUES			
Investment income	\$	\$	\$ 0
Lease revenue	7,097,200		7,097,200
Other revenue			0
Total revenues	\$ 7,097,200	\$ 0	\$ 7,097,200
EXPENDITURES			
Current - general government	\$	\$ 100,000	\$ 100,000
Capital outlay		10,339,899	10,339,899
Capital outlay reimbursed to State of Michigan			0
Debt service:			
Principal			0
Interest and fiscal charges	1,853,997		1,853,997
Debt issuance costs		1,317,814	1,317,814
Total expenditures	\$ 1,853,997	\$ 11,757,713	\$ 13,611,711
Revenues over (under) expenditures	\$ 5,243,203	\$ (11,757,713)	\$ (6,514,511)
OTHER FINANCING SOURCES (USES)			
Long-term debt issued	\$	\$ 113,480,000	\$ 113,480,000
Premium on bonds issued		665,004	665,004
Transfers from other funds	1,760,093		1,760,093
Transfers to other funds		(101,101,248)	(101,101,248)
Total other financing sources (uses)	\$ 1,760,093	\$ 13,043,756	\$ 14,803,850
Net change in project equity	\$ 7,003,296	\$ 1,286,043	\$ 8,289,339
PROJECT EQUITY (DEFICIT)			
Beginning of fiscal year			0
End of fiscal year	\$ 7,003,296	\$ 1,286,043	\$ 8,289,339

STATE BUILDING AUTHORITY
Schedule of Bonds Payable,
Including Mandatory Redemption Provisions
September 30, 2010
(In Thousands)

Fiscal Year Ending September 30	2001 Series I Refunding	2003 Series I Refunding	2003 Series II Revenue and Refunding	2004 Revenue and Refunding	2005 Series I Refunding	2005 Series II Revenue and Refunding
2011	\$ 13,995	\$ 48,620	\$	\$ 11,945	\$ 7,340	\$ 2,825
2012	14,715	51,050		12,525	7,665	3,690
2013	15,525	53,730		13,180	6,115	3,835
2014	16,375	56,550		13,830	6,420	4,395
2015	17,280	59,520		14,560	6,740	5,020
2016	18,230	62,645		15,330	7,075	5,700
2017	19,230	53,500		7,485	7,430	6,430
2018	20,290	8,950		3,960	7,800	6,750
2019	21,405			4,140	8,190	7,090
2020	22,580			1,055	8,600	7,445
2021	23,825				9,030	7,815
2022	25,045				9,485	8,205
2023	27,930		18,825		9,960	8,615
2024	29,325		19,765		10,455	9,045
2025	10,610		20,755		10,975	9,500
2026	7,865		21,790		11,855	9,975
2027			22,880		12,805	10,470
2028			24,025		13,825	10,995
2029			25,225		14,935	11,545
2030			21,265		16,130	12,125
2031					16,940	12,730
2032					17,790	13,365
2033					18,680	14,035
2034					17,945	14,735
2035						15,470
2036						12,875
2037						2,210
2038						
2039						
2040						
2041						
2042						
2043						
Total	<u>\$ 304,225</u>	<u>\$ 394,565</u>	<u>\$ 174,530</u>	<u>\$ 98,010</u>	<u>\$ 264,185</u>	<u>\$ 236,890</u>

* The bonds payable for 2006 Series IA includes the fully accreted values related to its capital appreciation bonds.

2006 Series IA Refunding*	2006 Series IB Refunding	2007 Series I Multi-Modal	2008 Series I Revenue and Refunding	2009 Series I Refunding	2009 Series II Revenue	Totals
\$	\$ 2,715	\$ 3,500	\$ 1,670	\$ 8,690	\$ 1,715	\$ 103,015
	2,860		1,720	9,095	2,665	105,985
	3,010		1,790	9,525	2,750	109,460
3,065	110		1,855	9,985	2,830	115,415
3,175			1,935	10,480	2,915	121,625
3,175			2,035	10,985	3,030	128,205
14,615			3,130	11,535	3,150	126,505
23,935			41,325	12,110	3,280	128,400
75,420			1,530	12,720	3,385	133,880
75,420			1,610	13,350	3,555	133,615
75,420			1,695	14,015	3,690	135,490
75,420				15,105	3,870	137,130
56,595				15,765	4,395	142,085
56,595				16,595	4,620	146,400
56,595				17,425	4,850	130,710
56,595				18,340	5,105	131,525
56,595				3,690	11,675	118,115
56,595		3,895			8,795	118,130
56,595		2,150			8,065	118,515
61,820		3,000			7,030	121,370
84,145		3,100			5,860	122,775
84,145		3,000			6,140	124,440
85,660		3,000			6,630	128,005
67,275					3,480	103,435
68,265						83,735
71,675						84,550
61,280			12,110			75,600
			70,595			70,595
			49,275			49,275
		26,785				26,785
		37,885				37,885
						0
		8,385				8,385
<u>\$ 1,330,075</u>	<u>\$ 8,695</u>	<u>\$ 94,700</u>	<u>\$ 192,275</u>	<u>\$ 209,410</u>	<u>\$ 113,480</u>	<u>\$ 3,421,040</u>

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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 Internal Control Over Financial Reporting and on Compliance and Other Matters

Ms. Phyllis Mellon, Acting Director
Department of Technology, Management & Budget
and
Mr. Patrick Devlin, Chair
State Building Authority Board of Trustees
Lewis Cass Building
Lansing, Michigan

Dear Ms. Mellon and Mr. Devlin:

We have audited the financial statements of the governmental activities and each major fund of the State Building Authority, a blended component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2010, which collectively comprise the Authority's basic financial statements as identified in the table of contents, and have issued our report thereon dated December 21, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material

weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the State Building Authority Board of Trustees, management, and others within the Authority and the Department of Technology, Management & Budget 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

December 21, 2010

GLOSSARY

Glossary of Acronyms and Terms

deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial schedules and/or financial statements will not be prevented, or detected and corrected, on a timely basis.

significant deficiency
in internal control over
financial reporting

A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.

