

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE

MICHIGAN STRATEGIC FUND

October 1, 1998 through September 30, 2000

## EXECUTIVE DIGEST

# MICHIGAN STRATEGIC FUND

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### INTRODUCTION

This report contains the results of our financial audit\* of the Michigan Strategic Fund (MSF) for the period October 1, 1999 through September 30, 2000 and the results of our audit of the provisions of the Single Audit\* Act for MSF for the period October 1, 1998 through September 30, 2000.

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### AUDIT PURPOSE

This financial audit of MSF was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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### BACKGROUND

MSF was created by Act 270, P.A. 1984 (Sections 125.2001 - 125.2093 of the *Michigan Compiled Laws*), to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing. Under the provisions of this Act, MSF succeeded to the rights, properties, obligations, and duties of the Michigan Job Development Authority and the Michigan Economic Development Authority. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency,

\* See glossary at end of report for definition.

created the Michigan Department of Career Development, and abolished the Michigan Jobs Commission. The Order also transferred several programs and functions of the Michigan Jobs Commission to MSF.

MSF is governed by a nine-member board of directors that consists of the director of the Department of Management and Budget, the State Treasurer, and seven members appointed by the Governor with the advice and consent of the Senate. The MSF Board of Directors is authorized to make grants, loans, and investments of MSF funds to assist both profit and nonprofit businesses.

As of September 30, 2000, MSF had 326 employees that were detailed\* to the Michigan Economic Development Corporation.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To audit MSF's financial statements and to examine the schedule of expenditures of federal awards in relation to MSF's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

**Conclusion: We expressed an unqualified opinion\* on MSF's financial statements. In addition, we expressed an unqualified opinion on MSF's schedule of expenditures of federal awards in relation to the financial statements taken as a whole.**

**Audit Objective:** To assess and report on MSF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control\* over financial reporting, based on our audit of the financial statements.

\* See glossary at end of report for definition.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\*. However, we identified a reportable condition\* related to accounts payable estimation (Finding 1).

**In addition, our assessment indicated that MSF was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

**Audit Objective:** To assess and report on MSF's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion:** We issued an unqualified opinion on MSF's compliance with requirements applicable to MSF's major federal program. Also, our assessment of internal control over compliance applicable to MSF's major federal program did not disclose any material weaknesses. However, we identified reportable conditions related to subrecipient monitoring and accounts payable estimation (Findings 2 and 3).

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Michigan Strategic Fund for the period October 1, 1999 through September 30, 2000. We also examined the financial and other records related to the federal programs for the period October 1, 1998 through

\* See glossary at end of report for definition.

September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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

Our audit report contains 2 findings and 2 corresponding recommendations. MSF's corrective action plan indicates that it agrees with both recommendations.

As disclosed in MSF's summary schedule of prior audit findings, MSF fully corrected the one prior audit finding.

June 26, 2001

Mr. Doug Rothwell, President  
Michigan Strategic Fund  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

This is our report on the financial audit of the Michigan Strategic Fund for the period October 1, 1999 through September 30, 2000 and the audit of the provisions of the Single Audit Act for the Michigan Strategic Fund for the period October 1, 1998 through September 30, 2000.

This report contains our executive digest; description of entity; audit objectives and conclusions, audit scope, and entity responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial statements, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Michigan Strategic Fund financial statements and notes to the financial statements, a schedule of expenditures of federal awards, other schedules, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The entity's preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited entity develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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## Description of Entity

The Michigan Strategic Fund (MSF) was created by Act 270, P.A. 1984 (Sections 125.2001 - 125.2093 of the *Michigan Compiled Laws*), to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing. Under the provisions of this Act, MSF succeeded to the rights, properties, obligations, and duties of the Michigan Job Development Authority and the Michigan Economic Development Authority. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency, created the Michigan Department of Career Development, and abolished the Michigan Jobs Commission. The Order also transferred several programs and functions of the Michigan Jobs Commission to MSF.

MSF is governed by a nine-member board of directors that consists of the director of the Department of Management and Budget, the State Treasurer, and seven members appointed by the Governor with the advice and consent of the Senate. The MSF Board of Directors is authorized to make grants, loans, and investments of MSF funds to assist both profit and nonprofit businesses. MSF is responsible for the administration of the federal Community Development Block Grants Program.

Executive Order No. 1999-1 further authorized MSF to enter into an interlocal agreement with local public agencies. Under this authority, MSF created the Michigan Economic Development Corporation (MEDC) as a new public entity to help administer programs transferred to MSF. Any economic development programs transferred to MSF could be transferred, along with the relevant personnel and funding, to the new MEDC. MSF entered into an interlocal agreement with the Economic Development Corporation of the Charter County of Wayne, and MEDC was formed.

As of September 30, 2000, MSF had 326 employees that were detailed to MEDC.

## Audit Objectives and Conclusions, Audit Scope, and Entity Responses and Prior Audit Follow-Up

### Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Michigan Strategic Fund (MSF) had the following objectives:

1. To audit MSF's financial statements and to examine the schedule of expenditures of federal awards in relation to MSF's financial statements as of and for the fiscal years ended September 30, 2000 and September 30, 1999.

**We expressed an unqualified opinion on MSF's financial statements. In addition, we expressed an unqualified opinion on MSF's schedule of expenditures of federal awards in relation to the financial statements taken as a whole.**

2. To assess and report on MSF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.

**Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.** However, we identified a reportable condition related to accounts payable estimation (Finding 1).

**In addition, our assessment indicated that MSF was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

The finding related to our assessment of compliance and internal control over financial reporting is contained in Section II of the schedule of findings and questioned costs\*.

\* See glossary at end of report for definition.

3. To assess and report on MSF's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

**We issued an unqualified opinion on MSF's compliance with requirements applicable to MSF's major federal program. Also, our assessment of internal control over compliance applicable to MSF's major federal program did not disclose any material weaknesses.** However, we identified reportable conditions related to subrecipient monitoring and accounts payable estimation (Findings 2 and 3).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

#### Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Strategic Fund for the period October 1, 1999 through September 30, 2000. We also examined the financial and other records related to the federal programs for the period October 1, 1998 through September 30, 2000. Our audit was conducted 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 and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered MSF's internal control over compliance applicable to each major federal program and assessed MSF's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to 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. In addition, we followed up on MSF's summary schedule of prior audit findings. MSF's major federal program is identified in Section I of the schedule of findings and questioned costs.

### Entity Responses and Prior Audit Follow-Up

Our audit report contains 2 findings and 2 corresponding recommendations. MSF's corrective action plan indicates that it agrees with both recommendations.

MSF's corrective action plan, which is included in this report, was prepared by MSF as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MSF to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in MSF's summary schedule of prior audit findings, MSF fully corrected the one prior audit finding.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable condition identified that is not considered to be a material weakness? Yes

Noncompliance material to the financial statements? No

### Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grants/State's Program

Dollar threshold used to distinguish between type A and type B programs: \$2,852,299

Auditee qualified as a low-risk auditee\*? No

\* See glossary at end of report for definition.

## **Section II: Findings Related to the Financial Statements**

### **FINDING (07S0101)**

#### **1. Accounts Payable Estimation**

The Michigan Strategic Fund (MSF) had not developed procedures to ensure the proper recording of fiscal year-end accounts payable for the Community Development Block Grants (CDBG) Program.

Department of Management and Budget Administrative Guide section 1210.27 requires that expenditures and payables be recognized for grants in the year in which services are provided.

MSF did not record a complete estimate of accounts payable due to subrecipients of the CDBG Program at the close of each fiscal year. MSF did record a payable for a small number of subrecipients who had submitted requests for reimbursement prior to mid-November. However, MSF did not require grantees to submit needed information at year-end so that MSF could estimate a payable for the remaining subrecipients who had not submitted a request for reimbursement for services provided prior to September 30. We estimated that accounts payable and expenditures were understated by \$2,758,711 in fiscal year 1999-2000 and by \$6,500,669 in fiscal year 1998-99. As a result, the amounts due from the federal government and federal revenue were also understated by \$2,758,711 for fiscal year 1999-2000 and by \$6,500,669 for fiscal year 1998-99. MSF accounting staff made the necessary adjustments in the accounting records in fiscal year 1999-2000.

### **RECOMMENDATION**

We recommend that MSF develop procedures to ensure the proper recording of fiscal year-end accounts payable for the CDBG Program.

**The status of the finding related to the financial statements that was reported in the prior audit is disclosed in the summary schedule of prior audit findings.**

## Section III: Findings and Questioned Costs Related to Federal Awards

### FINDING (07S0102)

#### 2. Subrecipient Monitoring

U.S. Department of Housing and Urban Development	CFDA: 14.228 - Community Development Block Grants/State's Program
Award Number: B-00-DC-26-0001 B-99-DC-26-0001 B-98-DC-26-0001 B-97-DC-26-0001 B-96-DC-26-0001 B-95-DC-26-0001 B-94-DC-26-0001	Award Period: 1/01/00 - Depletion 1/01/99 - Depletion 1/01/98 - Depletion 1/01/97 - Depletion 1/01/96 - Depletion 1/01/95 - Depletion 1/01/94 - Depletion
	Questioned Costs: \$0

MSF had not established a comprehensive subrecipient monitoring process to ensure that CDBG awards provided to subrecipients were expended in accordance with applicable laws, regulations, and provisions of contracts or grants.

CDBG regulations state that a recipient shall sign a written agreement with the subrecipient before disbursing any CDBG funds. In addition, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require MSF to identify federal awards to its subrecipients, advise its subrecipients of federal and grant requirements, ensure that subrecipients have met the necessary Single Audit requirements, and monitor the activities of its subrecipients to ensure that subrecipients use federal awards in compliance with applicable laws, regulations, and provisions of contracts or grants.

MSF provided \$59.9 million and \$31.5 million in CDBG funds to its subrecipients in fiscal years 1999-2000 and 1998-99, respectively. Of these amounts, 14% of fiscal year 1999-2000 and 23% of fiscal year 1998-99 CDBG funds were provided to the Michigan State Housing Development Authority (MSHDA). MSF awarded the remaining 86% in fiscal year 1999-2000 and 77% in fiscal year 1998-99 of the CDBG funds to approximately 250 other subrecipients.

Our review of MSF's subrecipient monitoring process disclosed:

- a. MSF did not enter into a grant agreement with MSHDA. A current grant agreement between MSF and MSHDA would properly identify the federal awards provided to MSHDA and the use of the federal awards and advise the subrecipient of federal and grant requirements. In the prior audit, we informed CDBG program management that it should obtain a current, formalized agreement between MSF and MSHDA. CDBG program management agreed with the memorandum and informed us that it would update the agreement between MSF and MSHDA. However, MSF has not completed a current, signed agreement with MSHDA.
- b. MSF did not monitor the activities of all of its subrecipients. MSF performed site visits, reviewed documentation supporting requests for reimbursement, and reviewed Single Audit reports that it received; however, MSF did not have a systematic process in place to identify which of the other CDBG subrecipients were required to obtain a Single Audit and to ensure that MSF received and reviewed the required Single Audit reports. For example, MSF did not obtain MSHDA's Single Audit report and did not perform other subrecipient monitoring activities for MSHDA for two consecutive audit periods.

MSF's review of required Single Audit reports would provide reasonable assurance that the subrecipients administered federal awards in compliance with federal regulations and help ensure that subrecipients took prompt corrective action on any audit findings.

### **RECOMMENDATION**

We recommend that MSF establish a comprehensive subrecipient monitoring process to ensure that CDBG awards provided to subrecipients are expended in accordance with applicable laws, regulations, and provisions of contracts or grants.

## **FINDING (07S0103)**

### **3. Accounts Payable Estimation**

U.S. Department of Housing and Urban Development	CFDA: 14.228 - Community Development Block Grants/State's Program
Award Number: B-00-DC-26-0001 B-99-DC-26-0001 B-98-DC-26-0001 B-97-DC-26-0001 B-96-DC-26-0001 B-95-DC-26-0001 B-94-DC-26-0001	Award Period: 1/01/00 - Depletion 1/01/99 - Depletion 1/01/98 - Depletion 1/01/97 - Depletion 1/01/96 - Depletion 1/01/95 - Depletion 1/01/94 - Depletion
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (07S0101). The finding is also included in Section III because of the finding's effect on MSF's major federal program.

Independent Auditor's Report on  
the Financial Statements

March 16, 2001

Mr. Doug Rothwell, President  
Michigan Strategic Fund  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

We have audited the accompanying balance sheet of the Michigan Strategic Fund as of September 30, 2000 and September 30, 1999 and the related statement of revenues, expenditures, and changes in fund balance for the fiscal years then ended. These financial statements are the responsibility of the Michigan Strategic Fund's management. Our responsibility is to express an opinion 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 opinion.

As described in Note 1b, the accompanying financial statements present only the Michigan Strategic Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its governmental and trust component units.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Strategic Fund as of

September 30, 2000 and September 30, 1999 and the results of its operations for the fiscal years 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 a report dated March 16, 2001, on our tests of the Michigan Strategic Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Michigan Strategic Fund's 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 financial statements taken as a whole.

AUDITOR GENERAL

Independent Auditor's Report on Compliance and  
on Internal Control Over Financial Reporting

March 16, 2001

Mr. Doug Rothwell, President  
Michigan Strategic Fund  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

We have audited the financial statements of the Michigan Strategic Fund as of and for the fiscal years ended September 30, 2000 and September 30, 1999 and have issued our report thereon dated March 16, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Michigan Strategic Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Strategic Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Michigan Strategic Fund's ability to record, process, summarize, and report financial data

consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as Finding 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described in the previous paragraph is not a material weakness.

This report is intended solely for the information and use of the Michigan Strategic Fund's Board of Directors, the State's management, the Legislature, and federal awarding agencies 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

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

March 16, 2001

Mr. Doug Rothwell, President  
Michigan Strategic Fund  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

Compliance

We have audited the compliance of the Michigan Strategic Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999. The Michigan Strategic Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Michigan Strategic Fund's management. Our responsibility is to express an opinion on the Michigan Strategic Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Michigan Strategic Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Michigan Strategic Fund's compliance with those requirements.

In our opinion, the Michigan Strategic Fund complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 2000 and September 30, 1999.

#### Internal Control Over Compliance

The management of the Michigan Strategic Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Michigan Strategic Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Michigan Strategic Fund's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2 and 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the Michigan Strategic Fund's Board of Directors, the State's management, the Legislature, and federal awarding agencies 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

MICHIGAN STRATEGIC FUND  
Balance Sheet  
As of September 30

	2000	1999 (RESTATED)
<b>ASSETS</b>		
Current Assets:		
Cash (Notes 1.d. and 2)	\$ 79,163	\$ 205,920
Amounts due from primary government (State of Michigan) (Note 3)		70,052,577
Amounts due from federal government (Note 3)	11,880,759	10,908,716
Other current assets (Note 3)	8,356,893	7,784,495
Total Current Assets	\$ 20,316,815	\$ 88,951,708
Total Assets	\$ 20,316,815	\$ 88,951,708
<b>LIABILITIES AND FUND BALANCE</b>		
Current Liabilities:		
Accounts payable and other liabilities	\$ 11,927,321	\$ 9,535,695
Amounts due to primary government (State of Michigan)	4,930	
Amounts due to component unit (MEDC) (Note 5)	8,299,785	79,357,096
Deferred revenue	5,547	
Total Current Liabilities	\$ 20,237,583	\$ 88,892,791
Total Liabilities	\$ 20,237,583	\$ 88,892,791
Fund Balance		
Unreserved fund balance	\$ 79,232	\$ 58,917
Total Fund Balance	\$ 79,232	\$ 58,917
Total Liabilities and Fund Balance	\$ 20,316,815	\$ 88,951,708

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

MICHIGAN STRATEGIC FUND  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Years Ended September 30

	2000	1999 (RESTATED)
<b>REVENUES</b>		
Investment income	\$ 38,458	\$ 3,923,553
Interest on Capital Access Program reserves		141,808
Loan and other interest		725,682
IDRB Program fees	1,113,029	941,519
Technology Center Grant (federal)		1,345,887
Community Development Block Grant (federal) (Note 8)	52,986,737	32,209,473
Community Development Block Grant (local and others) (Note 8)	1,631,049	
Tribal gaming (Note 8)	7,446,294	28,520,656
Miscellaneous (Note 1.d.)	1,461,254	3,095,664
Total Revenues	\$ 64,676,821	\$ 70,904,242
<b>EXPENDITURES</b>		
Administrative (Note 1.d.)	\$ 2,686	\$ 651,256
BIDCO principal credits		2,084,939
Capital Access Program disbursements		1,086,431
Technology Center Grant (federal)		1,345,886
Program grants		14,210,740
Community Development Block Grant (federal) (Note 8)	55,045,957	32,121,491
Loan losses		2,159,918
Miscellaneous		87,983
Total Expenditures	\$ 55,048,643	\$ 53,748,644
Excess of Revenues Over Expenditures	\$ 9,628,177	\$ 17,155,598
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating transfers to MEDC (Note 1.e.)	\$ (174,941,176)	\$ (126,814,305)
Operating transfers from State of Michigan (Note 1.e.)	165,333,314	101,050,119
Total Other Financing Sources (Uses)	\$ (9,607,862)	\$ (25,764,186)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ 20,314	\$ (8,608,588)
Equity transfer to MEDC (Note 1.f.)	\$	\$ (170,792,948)
Equity transfer from Urban Land Assembly Loan Fund (Note 1.d.)		8,079,468
Total Equity Transfers	\$ 0	\$ (162,713,480)
Fund Balance - Beginning	\$ 58,916	\$ 171,380,985
Fund Balance - Ending	\$ 79,231	\$ 58,916

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

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

The accounting policies of the Michigan Strategic Fund (MSF) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies:

#### a. Reporting Entity

MSF was created by Act 270, P.A. 1984, to help diversify the economy of the State and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing. Under the provisions of this Act, MSF succeeded to the rights, properties, obligations, and duties of the Michigan Job Development Authority and the Michigan Economic Development Authority.

MSF is governed by a nine-member board of directors that consists of the director of the Department of Management and Budget, the State Treasurer, and seven members appointed by the Governor with the advice and consent of the Senate.

Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency. The Order also transferred the following programs and functions of the Michigan Jobs Commission to MSF:

- Capital Resources Group
- Commercial Redevelopment Act
- Community Development Block Grants (CDBG)
- Department of Economic Expansion and Economic Expansion Council
- Economic Development Corporations Act
- Economic Development Job Training
- K.I. Sawyer Conversion Authority
- Michigan Business Incubation Act
- Michigan Economic Growth Authority
- Michigan Enterprise Zone Authority

Michigan International Trade Authority  
Michigan Renaissance Zone Act  
Michigan Training Incentive Fund  
Michigan Travel Commission  
Michigan Urban Land Assembly Act  
Minority, Women, and Small Business Services Units  
Neighborhood Enterprise Zones  
Office of Business and Education Coordination  
Office of Film and Television Services  
Office of the Michigan Business Ombudsman  
Office of the Small Business Clean Air Ombudsman  
Personal Property Tax Exemption  
Plant Rehabilitation and Industrial Development Districts  
State Education Tax Exclusion  
Travel Michigan  
Wurtsmith Conversion Authority

Executive Order No. 1999-1 further authorized MSF to enter into an interlocal agreement with local public agencies. Under this authority, MSF created the Michigan Economic Development Corporation (MEDC) as a new public entity to help administer programs transferred to MSF. Any economic development programs transferred to MSF could be transferred, along with the relevant personnel and funding, to the new MEDC. MSF entered into an interlocal agreement with the Economic Development Corporation of the Charter County of Wayne, and MEDC was formed.

MSF is a component unit of the financial reporting entity of the State of Michigan. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic criteria include the appointment of a voting majority of the governing board of MSF; the legal separation of the State and MSF; the fiscal independence of MSF; whether exclusion of the unit would make the *State of Michigan Comprehensive Annual Financial Report* misleading; and whether there is a potential for MSF to provide specific financial benefits to, or impose specific financial burdens on, the State.

b. Basis of Presentation

Under fund accounting, the accounts of the component units of the State of Michigan are organized on the basis of funds, each of which is considered a separate accounting entity. MSF's operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Government resources are allocated to and accounted for in separate funds, based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

MSF is accounted for as a governmental fund. The accompanying financial statements present only MSF and are not intended to present fairly the financial position and results of operations of the State of Michigan or its governmental and trust component units.

c. Measurement Focus/Basis of Accounting

The term "measurement focus" refers to what is being measured, and the term "basis of accounting" refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental fund types are accounted for using the modified accrual basis of accounting. The modified accrual basis emphasizes the measurement of current financial resources and obligations. Revenues are recorded when they are measurable and available to finance expenditures of the current period. Expenditures are recorded at the time fund liabilities are incurred.

d. Restatement

The Urban Land Assembly Loan Fund account balances were reported in MSF's fiscal year 1998-99 financial statements. In accordance with Executive Order No. 1999-1, these should have been transferred to MEDC during fiscal year 1998-99. Fiscal year 1998-99 balances have been decreased for miscellaneous revenues (\$180,360), administrative expenditures (\$1,200), cash (\$4,357,574), and amounts due from local

governments (\$3,901,054) and increased for equity transfer to MEDC (\$8,079,468).

e. Financial Data

The MSF Board of Directors entered into an interlocal agreement with a local unit of government's economic development corporation to create MEDC. MEDC came into existence on April 5, 1999. In accordance with the terms of the agreement, substantial assets, liabilities, and fund balances of MSF were transferred to MEDC on May 1, 1999. All revenues received from tribal casino gaming, industrial development revenue bond (IDRB) issuance fees, and other sources were transferred to MEDC on a monthly basis. This interlocal agreement also detailed all of MSF's State classified employees to MEDC. State appropriations available to MSF for this purpose were also made available to MEDC, as needed.

MSF revenues, expenditures, and other financing sources and uses primarily consist of the following:

- (1) Revenues: Amounts received from tribal gaming revenue, the Community Development Block Grant (CDBG) from the U.S. Department of Housing and Urban Development, the Employment Service grant from the U.S. Department of Labor, and other restricted revenues. Fiscal year 1998-99 data represented CDBG federal revenue from April 1, 1999 through September 30, 1999.
- (2) Expenditures: CDBG and other minor administrative expenditures. Expenditures for the Employment Service grant from the U.S. Department of Labor were recorded in MEDC. Fiscal year 1998-99 data represented CDBG expenditures for April 1, 1999 through September 30, 1999 and program grant expenditures (nonappropriated) for the period October 1, 1998 through April 30, 1999.
- (3) Operating Transfers (In/Out): Operating transfers in included \$115 million from State General Fund appropriations and \$50 million from the Tobacco Settlement Trust Fund for fiscal year 1999-2000. All related expenditures and payables are recorded as required by

accounting principles generally accepted in the United States of America. Operating transfers out included \$7.4 million of tribal gaming revenue, \$1.1 million of revenue bond issuance fees, and \$165 million of General Fund and Tobacco Settlement Trust Fund money collected by MSF and transferred to MEDC during fiscal year 1999-2000. Operating transfers in and out for fiscal year 1998-99 included transfers for the partial year (April 1, 1999 through September 30, 1999).

f. Equity Transfer

During fiscal year 1998-99, an equity transfer of 170,792,948 was made to MEDC. Also, see Note 1.d. regarding the restatement of the account balances for the Urban Land Assembly Loan Fund.

g. Compensated Absences

The accumulated compensated absences liability is recorded in MEDC.

Note 2

Deposits and Investments

a. Deposits

Deposits reflected in MSF's bank accounts (without recognition of outstanding checks or deposits in transit) at September 30, 2000 were \$79,163, which was covered by federal depository insurance (FDIC) and was classified in GASB credit risk category 1. As of September 30, 1999, the deposit amounts were \$205,920, of which FDIC covered \$100,000 and the balance was classified in GASB credit risk category 3.

b. Investments

All investments of MSF, along with liabilities, were transferred to MEDC during fiscal year 1998-99 under the interlocal agreement. No investment activities occurred during fiscal year 1999-2000.

Note 3 Receivables

MSF receivables amounted to \$20,237,652 at September 30, 2000 and \$88,745,788 at September 30, 1999. The balances consisted of:

	Fiscal Year	
	1999-2000	1998-99
<u>Amounts Due from Primary Government</u> <u>(State of Michigan)</u>		
Accounts payable	\$	\$22,159,571
Accounts receivable		(10,957,583)
Encumbrances		28,400,704
Technical Center Grant		30,000,000
Miscellaneous		449,884
Total Amounts Due From Primary Government (State of Michigan)	\$	\$70,052,577
 <u>Amounts Due from Federal Government</u>		
CDBG	\$11,880,759	\$10,908,716
 <u>Other Current Assets</u>		
Tribal gaming revenue receivable	\$ 8,299,854	\$ 7,735,628
Miscellaneous receivables	57,039	48,868
Total Other Current Assets	\$ 8,356,893	\$ 7,784,495
 Total Receivables	<u>\$20,237,652</u>	<u>\$88,745,788</u>

Note 4 Loans Receivable

All loans receivable were transferred to MEDC on May 1, 1999.

Note 5 Amounts Due to Component Unit

Amounts due to component unit (MEDC) at the end of fiscal year 1998-99 (\$79,357,096) represented mostly State appropriated funds that were committed to MEDC for several grant programs but not transferred to MEDC at the end of fiscal year 1998-99. A similar amount was deposited for fiscal year 1999-2000 in the State Treasurer's Common Cash for MEDC's use.

Note 6 Bond Programs

MSF and a predecessor entity (the Michigan Job Development Authority) issued industrial development revenue bonds (IDRBs). In addition, MSF issued bonds under its Taxable Bond Program. The bonds issued are payable solely from the net revenues of the project and are not an obligation of MSF or the State of Michigan. After the bonds are issued, all financial activities are assumed by a trustee, depository, or paying agent. Accordingly, these obligations are not reported in the MSF financial statements. Information regarding the status of such bond issues, including possible default, must be obtained from the trustee or depository for bonds, the industrial or commercial enterprise benefited by the bonds, or some other knowledgeable source.

The total amount of IDRBs issued by MSF and its predecessor entity for the period January 1, 1979 through September 30, 2000 was \$5,182,458,339 (\$4,740,501,439 through September 30, 1999). The total amount of bonds issued by MSF under the Taxable Bond Program for the period October 1, 1999 through September 30, 2000 was \$785,000 (\$1,300,000 during fiscal year 1998-99).

Note 7 Commitments and Contingencies

All commitments and contingencies of MSF were transferred to MEDC on May 1, 1999 along with the assets.

Note 8 Major Revenue Sources

One of the major revenue sources of MSF is its 8% share of the net revenues derived from the class III electronic games of several casinos located throughout Michigan. During the fiscal year ended September 30, 2000, revenue was recognized from this source in the amount of \$7,446,294 (\$28,520,656 during fiscal year 1998-99). This amount represented approximately 11.5% (40.2% in fiscal year 1998-99) of total revenues for the fiscal year ended September 30, 2000. MSF also recorded \$54,617,786 (\$32,209,473 in fiscal year 1998-99) in revenue and \$55,045,957 (\$32,121,491 in fiscal year 1998-99) in expenditures during fiscal year 1999-2000 for the CDBG Program.

The opening of new tribal casinos and the licensure of casinos in Detroit pursuant to an initiative approved by Michigan voters in 1996 ended the obligation of seven tribes to make payments to MSF. Under a federal court

agreement with the State, five tribes ceased making payments in June 1999. Two casinos stopped remitting required payments after February 19, 1999. This matter is in litigation and MSF has not recorded any revenue for the amounts that may be recovered, in the event of a favorable outcome, for the period February through June 1999.

New compacts with four additional tribes were approved by a legislative resolution in December 1998. During the fiscal year ended September 30, 2000, two of these four casinos contributed revenue to MSF. Revenue received from these four casinos will replace revenue lost from the earlier compact with seven tribes, to some extent, and will enable MSF/MEDC to continue to pursue its intended mission of aiding economic development in Michigan.

Note 9 Contingency

*Sault Ste. Marie Tribe of Chippewa Tribes, et al. v John M. Engler, Governor of the State of Michigan*

In March 2000, a federal circuit judge agreed that the obligation of the seven tribes, which are parties to a consent judgment and the first compacts to make payments to MSF, ceased in February 1999. This ruling affects only two tribes involved in the lawsuit as the other five tribes have already entered into settlements with the State. The State is appealing the judge's ruling. Neither of the two tribes has made payments for the period beyond February 1999, nor has MEDC recorded any receivable for the revenue accrued after February 1999.

*Taxpayers of Michigan Against Casinos, et al. v State of Michigan*

In January 2000, an Ingham County circuit judge issued a declaratory ruling that the four new compacts were adopted in an unconstitutional manner. The State has appealed that ruling. It is not anticipated that this ruling will have an immediate effect on payments from the tribes because the compacts remain in effect until a federal court rules that they are void. It is not anticipated that federal authorities would or could pursue such a ruling until after State appeals are exhausted.

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# SUPPLEMENTAL FINANCIAL SCHEDULE

**MICHIGAN STRATEGIC FUND**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1998 through September 30, 2000

	For the Fiscal Year Ended September 30, 1999			
Federal Agency/Program or Cluster	CFDA (2) Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b>U.S. Department of Commerce</b>				
Direct Program:				
Manufacturing Extension Partnership (3)	11.611	\$	\$ 1,345,886	\$ 1,345,886
<b>Total U.S. Department of Commerce</b>		<b>\$ 0</b>	<b>\$ 1,345,886</b>	<b>\$ 1,345,886</b>
<b>U.S. Department of Housing and Urban Development</b>				
Direct Program:				
Community Development Block Grants/State's Program (4,5,6)	14.228	\$ 1,000,249	\$ 31,529,949	\$ 32,530,198
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 1,000,249</b>	<b>\$ 31,529,949</b>	<b>\$ 32,530,198</b>
Total Expenditures of Federal Awards		<u>\$ 1,000,249</u>	<u>\$ 32,875,835</u>	<u>\$ 33,876,084</u>

- (1) Basis of Presentation: This schedule includes the federal grant activity of the Michigan Strategic Fund and is presented on the modified accrual basis of accounting. This information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the financial statements.
- (2) CFDA is defined as *Catalog of Federal Domestic Assistance*.
- (3) CFDA No. 11.611 was transferred to the Michigan Economic Development Corporation on May 1, 1999.
- (4) Program income increases the federal award; federal regulations allow for the entity to retain and spend program income according to the federal guidelines.
- (5) CFDA No. 14.228 was transferred to the Michigan Strategic Fund as of April 1, 1999 from the Michigan Jobs Commission.
- (6) CFDA No. 14.228 has open grants from May 1, 1994 through September 30, 2000.

<u>For the Fiscal Year Ended September 30, 2000</u>			
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$	\$	\$	\$ 1,345,886
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,345,886</b>
\$ 1,274,271	\$ 59,926,271	\$ 61,200,542	\$ 93,730,740
<b>\$ 1,274,271</b>	<b>\$ 59,926,271</b>	<b>\$ 61,200,542</b>	<b>\$ 93,730,740</b>
<u>\$ 1,274,271</u>	<u>\$ 59,926,271</u>	<u>\$ 61,200,542</u>	<u>\$ 95,076,626</u>

# OTHER SCHEDULES

MICHIGAN STRATEGIC FUND  
Summary Schedule of Prior Audit Findings  
As of September 30, 2000

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1998 through September 30, 1999  
**Finding Number:** 1  
**Finding Title:** MSF Accounting and Financial Reporting  
**Finding:** The Michigan Strategic Fund (MSF), in conjunction with the Department of Management and Budget, did not record certain financial transactions properly and in a timely manner.  
**Status:** MSF has recorded financial transactions properly and in a timely manner for the fiscal year ended September 30, 2000.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

There were no findings related to federal awards in the prior audit.

MICHIGAN STRATEGIC FUND

Corrective Action Plan

As of June 5, 2001

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**Finding Number:** 07S0101  
**Finding Title:** Accounts Payable Estimation  
**Management Views:** We agree with the recommendation. However, this reportable condition would have had no impact on the retained earnings for the Michigan Strategic Fund.  
**Corrective Action:** We will issue instructions clarifying the procedure for the year-end closing to all our subgrantees and will ensure proper recording of fiscal year-end accounts payable for the Community Development Block Grants Program.  
**Anticipated Completion Date:** August 2001  
**Responsible Individuals:** Thomas Freeman and Juzer Modi

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 07S0102  
**Finding Title:** Subrecipient Monitoring  
**Management Views:** We agree with the recommendation.  
**Corrective Action:** An agreement is being reviewed. Also, we will receive and review a copy of the Single Audit report of the subrecipient.  
**Anticipated Completion Date:** June 2001  
**Responsible Individual:** Thomas Freeman

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**Finding Number:** 07S0103  
**Finding Title:** Accounts Payable Estimation

See Finding 07S0101 with the findings related to the financial statements.

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## Glossary of Acronyms and Terms

BIDCO	business and industrial development corporation.
CDBG	Community Development Block Grants.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
detailed employees	The temporary assignment of employees from a governmental entity to another business entity. Employees in this capacity continue to receive the same compensation and benefits of the original employer, but receive day-to-day direction (work assignments and supervision) from the entity they are detailed to.
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 fairly presented in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
IDRB	industrial development revenue bond.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

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 results of operations or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or statement amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
MEDC	Michigan Economic Development Corporation.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
OMB	U.S. Office of Management and Budget.
questioned costs	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not

reflect the actions a prudent person would take in the circumstances.

**reportable condition**

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

**Single Audit**

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of 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, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

**unqualified opinion**

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.