

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE  
MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

October 1, 1998 through September 30, 2000

## EXECUTIVE DIGEST

# MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

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### INTRODUCTION

This report contains the results of our financial audit\* of the Michigan Economic Development Corporation (MEDC) 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 MEDC for the period October 1, 1998 through September 30, 2000.

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### AUDIT PURPOSE

This financial audit of MEDC 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

Article VII, Section 28 of the State Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created as of April 5, 1999 by a 10-year contract (interlocal agreement) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund. MEDC is a separate legal entity whose purpose is to stimulate, coordinate, and advance

\* See glossary at end of report for definition.

economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 17 members appointed to eight-year, staggered terms by the Governor.

As of September 30, 2000, MEDC had 26 corporation employees and 326 employees who were detailed\* from the Michigan Strategic Fund.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To audit MEDC's financial statements and to examine the schedule of expenditures of federal awards in relation to MEDC's financial statements as of and for the fiscal year ended September 30, 2000 and the six-month period ended September 30, 1999.

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

**Audit Objective:** To assess and report on MEDC'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.

**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\*.

\* See glossary at end of report for definition.

**In addition, our assessment indicated that MEDC 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 MEDC'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 MEDC's compliance with requirements applicable to each major federal program. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. However, we identified a reportable condition\* related to subrecipient monitoring (Finding 1).

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Michigan Economic Development Corporation 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; 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.

\* See glossary at end of report for definition.

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ENTITY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP

Our audit report contains 1 finding and 1 corresponding recommendation. MEDC's corrective action plan indicates that it agrees with the recommendation.

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

June 26, 2001

Mr. Doug Rothwell, President and Chief Executive Officer  
Michigan Economic Development Corporation  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

This is our report on the financial audit of the Michigan Economic Development Corporation for the period October 1, 1999 through September 30, 2000 and the audit of the provisions of the Single Audit Act for the Michigan Economic Development Corporation 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 Economic Development Corporation 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 finding and recommendation are contained in Section III of the schedule of findings and questioned costs. The entity preliminary response is 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

Article VII, Section 28 of the State Constitution and Act 7, P.A. 1967, provided for the creation of the Michigan Economic Development Corporation (MEDC) as a public body corporate. MEDC was created as of April 5, 1999 by a 10-year contract (interlocal agreement) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund. MEDC is a separate legal entity whose purpose is to stimulate, coordinate, and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 17 members appointed to eight-year, staggered terms by the Governor.

As of September 30, 2000, MEDC had 26 corporation employees and 326 employees who were detailed from the Michigan Strategic Fund.

## 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 Economic Development Corporation (MEDC) had the following objectives:

1. To audit MEDC's financial statements and to examine the schedule of expenditures of federal awards in relation to MEDC's financial statements as of and for the fiscal year ended September 30, 2000 and the six-month period ended September 30, 1999.

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

2. To assess and report on MEDC'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.**

**In addition, our assessment indicated that MEDC 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.**

3. To assess and report on MEDC'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 MEDC's compliance with requirements applicable to each major federal program. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** However, we identified a reportable condition related to subrecipient monitoring (Finding 1).

The finding related to our assessment of compliance and internal control over compliance applicable to each major federal program is 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 Economic Development Corporation 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 MEDC's internal control over compliance applicable to each major federal program and assessed MEDC'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 MEDC's summary schedule of prior audit findings. MEDC's major federal programs are identified in Section I of the schedule of findings and questioned costs.

#### Entity Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 1 corresponding recommendation. MEDC's corrective action plan indicates that it agrees with the recommendation.

\* See glossary at end of report for definition.

MEDC's corrective action plan, which is included in this report, was prepared by MEDC 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 MEDC to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in MEDC's summary schedule of prior audit findings, MEDC 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 conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable condition identified that is not considered to be a material weakness?	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:

<i>CFDA</i> Number	Name of Federal Program
11.611	Manufacturing Extension Partnership
17.207	Employment Service

Dollar threshold used to distinguish between type A and type B programs: \$300,000

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

## Section II: Findings Related to the Financial Statements

We did not report any findings related to the financial statements.

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 (07M0101)**

#### 1. Subrecipient Monitoring

U.S. Department of Commerce	CFDA: 11.611 Manufacturing Extension Partnership
Award Number: 70NANB5H0059	Award Period: 1999-2000
	Questioned Costs: \$0

MEDC had not established controls to ensure that grant agreements were developed and signed on a timely basis.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require MEDC to advise its subrecipient of federal and grant requirements. To ensure that the subrecipient is aware of program requirements and changes in program requirements, MEDC should develop and sign grant agreements on a timely basis.

Our review of MEDC's subrecipient monitoring process disclosed that MEDC did not obtain an agreement with the Michigan Manufacturing Technical Center for the Manufacturing Extension Partnership grant until February 28, 2001 for the grant year beginning April 15, 2000. In addition, the prior agreement covering the period April 15, 1999 through April 14, 2000 was not signed until December 2, 1999.

Not obtaining signed agreements can result in noncompliance with program requirements.

**RECOMMENDATION**

We recommend that MEDC establish controls to ensure that grant agreements are developed and signed on a timely basis.

Independent Auditor's Report on  
the Financial Statements

March 16, 2001

Mr. Doug Rothwell, President and Chief Executive Officer  
Michigan Economic Development Corporation  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

We have audited the accompanying balance sheet of the Michigan Economic Development Corporation as of September 30, 2000 and September 30, 1999 and the related statement of revenues, expenses, and retained earnings and statement of cash flows for the fiscal year ended September 30, 2000 and the six-month period ended September 30, 1999. These financial statements are the responsibility of the Michigan Economic Development Corporation'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 Economic Development Corporation and are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its proprietary 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 Economic Development Corporation as of September 30, 2000 and September 30, 1999, and the results of its

operations and cash flows for the fiscal year ended September 30, 2000 and the six-month period ended September 30, 1999 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 Economic Development Corporation'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 Economic Development Corporation'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 and Chief Executive Officer  
Michigan Economic Development Corporation  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

We have audited the financial statements of the Michigan Economic Development Corporation as of and for the fiscal year ended September 30, 2000 and the six-month period ended 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 Economic Development Corporation'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 Economic Development Corporation'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.

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 material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Michigan Economic Development Corporation's executive committee and management, the Michigan Strategic Fund, the Legislature, federal awarding agencies, and pass-through entities 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 and Chief Executive Officer  
Michigan Economic Development Corporation  
Victor Center  
Lansing, Michigan

Dear Mr. Rothwell:

Compliance

We have audited the compliance of the Michigan Economic Development Corporation 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 Economic Development Corporation's major federal programs are 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 Economic Development Corporation's management. Our responsibility is to express an opinion on the Michigan Economic Development Corporation'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 Economic Development Corporation'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 Economic Development Corporation's compliance with those requirements.

In our opinion, the Michigan Economic Development Corporation 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 Economic Development Corporation 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 Economic Development Corporation'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 a certain matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Michigan Economic Development Corporation's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. 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 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 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 Economic Development Corporation's executive committee and management, the Michigan Strategic Fund, the Legislature, federal awarding agencies, and pass-through entities

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 ECONOMIC DEVELOPMENT CORPORATION  
Balance Sheet  
As of September 30

	2000	1999 (RESTATED)
<b>ASSETS</b>		
Current Assets:		
Cash (Note 1.g.)	\$ 181,021,775	\$ 4,604,808
Capital Access Program - Current	331,159	1,752,011
Capital Access Program - Reserved	15,076,125	13,710,561
Time deposits	25,722,345	95,943,992
Gaming revenue receivable (from MSF)	8,299,786	7,882,631
Amounts due from MSF	19,489	71,474,466
Amounts due from federal agencies	61,943	
Investments (Note 2)	16,577,223	27,256,394
Other Current Assets:		
Mortgages and loans receivable (Notes 1.g. and 4)	\$ 4,498,360	\$ 548,596
Interest receivable	1,047,209	1,263,634
Miscellaneous	<u>172,567</u>	<u>16,630</u>
Total Other Current Assets	<u>5,718,136</u>	<u>1,828,860</u>
Total Current Assets	<u>\$ 252,827,981</u>	<u>\$ 224,453,723</u>
Mortgages and loans receivable (Notes 1.g. and 4)	16,439,738	18,425,554
Investments (Note 2)	90,489,139	34,481,111
Property, plant, and equipment (net)	<u>5,808,807</u>	
Total Assets	<u>\$ 365,565,664</u>	<u>\$ 277,360,388</u>
 <b>LIABILITIES AND FUND EQUITY</b>		
Current Liabilities:		
Accounts payable and other liabilities	\$ 22,729,701	\$ 19,049,445
Deferred revenues	<u>40,832</u>	
Total Current Liabilities	<u>\$ 22,770,533</u>	<u>\$ 19,049,445</u>
Long-Term Liabilities:		
Capital Access Program	\$ 15,085,636	\$ 13,724,044
Compensated absences (Note 1.e.)	<u>2,065,166</u>	<u>1,549,024</u>
Total Long-Term Liabilities	<u>\$ 17,150,802</u>	<u>\$ 15,273,068</u>
Total Liabilities	<u>\$ 39,921,335</u>	<u>\$ 34,322,513</u>
Fund Equity:		
Contributed Capital:		
From MSF (Notes 1.g. and 3)	<u>\$ 170,792,948</u>	<u>\$ 170,792,948</u>
Total Contributed Capital	<u>\$ 170,792,948</u>	<u>\$ 170,792,948</u>
Retained Earnings	<u>154,851,381</u>	<u>72,244,927</u>
Total Fund Equity (Note 6)	<u>\$ 325,644,329</u>	<u>\$ 243,037,875</u>
Total Liabilities and Fund Equity	<u>\$ 365,565,664</u>	<u>\$ 277,360,388</u>

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

**MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**  
Statement of Revenues, Expenses, and Retained Earnings

	Fiscal Year Ended <u>September 30, 2000</u>	Six-Month Period Ended September 30, 1999 <u>(RESTATED)</u>
<b>OPERATING REVENUES</b>		
Investment earnings	\$ 13,774,030	\$ 3,223,204
Net increase (decrease) in fair value of investments	(1,018,387)	3,948,131
Interest income on loans	727,827	341,547
Other interest income	357,783	100,532
Miscellaneous (Note 1.g.)	<u>3,170,828</u>	<u>304,617</u>
Total Operating Revenues	<u>\$ 17,012,081</u>	<u>\$ 7,918,031</u>
<b>OPERATING AND OTHER EXPENSES</b>		
Salaries, wages, and other administrative (Note 1.g.)	\$ 38,167,754	\$ 20,417,896
Compensated absences (Note 1.e.)	<u>516,143</u>	<u>1,549,024</u>
Total Operating and Other Expenses	<u>\$ 38,683,897</u>	<u>\$ 21,966,920</u>
Operating Income (Loss)	<u>\$ (21,671,816)</u>	<u>\$ (14,048,889)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal revenue - NIST	\$ 4,102,090	\$ 617,559
NIST Grant	(4,102,090)	(617,555)
Life Science Program	(456,190)	
Economic Development Job Training Grants	(28,170,101)	(22,545,560)
Detroit Downtown Development Authority	(10,099,693)	(1,428,519)
Center for Virtual Learning	(7,335,312)	(3,570,458)
Center for Michigan's Renaissance	(5,882,527)	(2,788,616)
Research Center Grants	(326,666)	(1,842,779)
Governor's Career Scholarship Program	(1,283,722)	(1,125,924)
Michigan Technical Education Center (M-TEC)	(5,991,172)	(3,348,382)
Marketing and miscellaneous	(2,395,693)	(3,039,419)
Capital Access Program	(2,167,284)	(705,043)
BIDCO principal credits	(699,928)	(90,802)
2000 Ad Campaign	(3,122,187)	
Technology Assistance Grant	(2,500,000)	
Technology Transfer Program	(200,000)	
Renaissance Zones	(41,254)	(34,991)
Other nonoperating expenses	(565,895)	
Other nonoperating grants	(886,559)	
Other nonoperating revenues	<u>1,461,278</u>	
Total Nonoperating Revenues (Expenses)	<u>\$ (70,662,906)</u>	<u>\$ (40,520,489)</u>
Income (Loss) Before Operating Transfers	\$ (92,334,723)	\$ (54,569,378)
<b>OPERATING TRANSFERS</b>		
From MSF (Note 3)	<u>174,941,176</u>	<u>126,814,305</u>
Net Income (Loss)	\$ 82,606,454	\$ 72,244,927
Retained Earnings - Beginning	<u>72,244,927</u>	<u>72,244,927</u>
Retained Earnings - Ending	<u>\$ 154,851,381</u>	<u>\$ 72,244,927</u>

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

**MICHIGAN ECONOMIC DEVELOPMENT CORPORATION**  
Statement of Cash Flows

	Fiscal Year Ended <u>September 30, 2000</u>	Six-Month Period Ended September 30, 1999 <u>(RESTATED)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (21,671,816)	\$ (14,048,889)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest (nonprogram) and investment income	(13,841,252)	(7,613,414)
Changes in assets and liabilities:		
Amounts due from component unit (MSF)	71,037,821	(79,357,096)
Mortgages and loans receivable (program loans)	(1,963,946)	(18,974,150)
Amount due from federal agencies	(61,943)	
Other assets	60,488	(1,280,264)
Accounts payable and other liabilities	5,598,821	34,322,512
Net cash provided (used) by operating activities	<u>\$ 39,158,173</u>	<u>\$ (86,951,301)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other nonoperating revenue	\$ 1,461,278	\$
Grants received from federal government	4,102,090	617,599
Nonoperating grants	(76,226,275)	(41,138,088)
Operating transfers from component unit (MSF)	174,941,176	126,814,305
Equity transfers from component unit (MSF)		170,792,948
Net cash provided (used) by noncapital financing activities	<u>\$ 104,278,270</u>	<u>\$ 257,086,764</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	\$ (5,808,807)	\$ 0
Net cash provided (used) by capital and related financing activities	<u>\$ (5,808,807)</u>	<u>\$ 0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	\$ (45,328,856)	\$ (61,737,504)
Interest and dividends on investments	13,841,252	7,613,414
Net cash provided (used) by investing activities	<u>\$ (31,487,604)</u>	<u>\$ (54,124,090)</u>
Net cash provided (used) - all activities	\$ 106,140,032	\$ 116,011,372
Cash and cash equivalents at beginning of year	116,011,372	116,011,372
Cash and cash equivalents at end of year	<u>\$ 222,151,404</u>	<u>\$ 116,011,372</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Per balance sheet classifications:		
Cash	\$ 181,021,775	\$ 4,604,808
Capital Access Program - Current	331,159	1,752,011
Capital Access Program - Reserved	15,076,125	13,710,561
Time deposits	25,722,345	95,943,992
Cash and cash equivalents at end of year	<u>\$ 222,151,404</u>	<u>\$ 116,011,372</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
	<u>\$ 0</u>	<u>\$ 0</u>

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 Economic Development Corporation (MEDC) 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

Article VII, Section 28 of the State Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created by a 10-year contract (interlocal agreement) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund (MSF). MEDC is a separate legal entity whose purpose is to stimulate, coordinate, and advance economic development in the State. Under the terms of the agreement, the governance of MEDC resides in an executive committee of 17 members appointed to eight-year, staggered terms by the Governor.

MEDC 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 MEDC; the legal separation of the State and MEDC; the fiscal independence of MEDC; whether exclusion of the unit would make the *State of Michigan Comprehensive Annual Financial Report* misleading; and whether there is a potential for MEDC to provide specific financial benefits to, or impose specific financial burdens on, the State.

#### b. Basis of Presentation

(1) 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. MEDC's operations are

accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. 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.

- (2) Proprietary Funds: MEDC is an enterprise fund. Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and cash flow. All assets and liabilities associated with proprietary fund activities are included on the balance sheet.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, i.e., where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accompanying financial statements present only MEDC and are not intended to present fairly the financial position and results of operations and cash flows of the State of Michigan or its proprietary component units.

c. Basis of Accounting

Proprietary fund types use the accrual basis of accounting. The accrual basis emphasizes the measurement of "net income" (i.e., "capital maintenance" focus). Using this basis, revenues are recognized when "earned" and expenses are recognized when "incurred." All financial resources and obligations of a fund, whether current or noncurrent, are recorded in the fund.

d. Financial Data

The MSF Board of Directors entered into an interlocal agreement with a local unit of government 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 issuance fees, and other sources are transferred to MEDC on a monthly basis. This interlocal agreement also detailed all State classified employees from MSF to MEDC. State appropriations available to MSF for this purpose are also made available to MEDC, as needed. MEDC statements include transactions recorded using all appropriated funds, except the Community Development Block Grants (CDBG) Program transactions (which are accounted for in MSF) and revenues from the U.S. Department of Labor for the Employment Service grant. Expenditures funded by revenues from the U.S. Department of Labor were recorded in MEDC.

MEDC financial statements primarily represent the following:

- (1) Operating Revenues: Amounts received from investment earnings.
- (2) Operating Expenses: Administrative expenses (including payables) incurred out of appropriated funds, except for the CDBG Program.
- (3) Nonoperating Revenues (Expenses): Revenues from federal grants and other restricted sources. Expenses related to program grants funded by State appropriations and MEDC nonappropriated funds.
- (4) Operating Transfers: Amounts available to MEDC from State appropriations and recorded in items (2) and (3). Also included are tribal casino gaming revenues collected by MSF and transferred to MEDC during the year.

e. Compensated Absences

Compensated absences are accrued when incurred in proprietary funds (using the accrual basis of accounting). At September 30, 2000, the accumulated liability for MEDC's State classified and corporate employees was estimated to be \$2,065,166 (\$1,549,023 as of September 30, 1999).

f. Comparative Data

Comparative totals for the prior year revenues and expenses representing only six months have been presented in the accompanying financial statements.

g. 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 19998-99 balances have been increased for miscellaneous revenues (\$180,360); salaries, wages, and other administrative expenses (\$1,200); cash (\$4,357,574); mortgages and loans receivable (\$3,901,054); and equity transfers from MSF (\$8,079,468).

Note 2 Deposits and Investments

a. General Information

MEDC's investment policy allows investments in the following investment types:

- (1) Securities issued or guaranteed by the U.S. government or its agencies.
- (2) Bonds or other obligations of any U.S. state or any local unit of government of any such state.
- (3) Preferred stock issued by U.S. corporations.
- (4) Repurchase agreements fully collateralized by U.S. government securities.
- (5) Corporate and bank debt including, but not limited to, commercial paper, certificates of deposit, banker's acceptances, and other short-term obligations.
- (6) Corporate notes and bonds.

- (7) Taxable bond funds.
- (8) Money market mutual fund shares that offer daily purchase and redemption and maintain a constant share price.
- (9) Common stock of U.S. corporations.
- (10) Stock mutual funds with portfolios highly concentrated in securities of U.S. corporations.

b. Deposits

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the custodial credit risk associated with them.

In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized, including bank balances that are collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the entity's name.

MEDC's deposits and investments at September 30, 2000 were:

	Deposits	Investments
Current Deposits and Investments:		
Checking	\$ 1,594,883	\$
Equity in State of Michigan		
Common Cash	179,426,892	
Capital Access Program - Current	331,159	
Capital Access Program - Reserved	15,076,125	
Time deposits	25,722,345	
Marketable securities		4,601,540
Nonmarketable securities		11,975,682
Total Current Deposits and Investments	\$ 222,151,404	\$ 16,577,222
Long-Term Marketable Securities		90,489,138
Total Deposits and Investments	\$ 222,151,404	\$ 107,066,360

Deposits included in MEDC's bank accounts (without recognition of outstanding checks or deposits in transit) were \$17,002,167 at September 30, 2000 (\$15,709,807 at September 30, 1999). Of that amount, \$4,202,524 (\$3,386,082 in fiscal year 1998-99) was covered by federal depository insurance and was classified in GASB credit risk category 1. The remaining \$12,799,644 (\$12,323,725 at September 30, 1999) was uninsured and uncollateralized at September 30, 2000 and was classified in GASB credit risk category 3.

The Equity in State of Michigan Common Cash represents cash received from the General Fund and tobacco revenues for the Life Science Program which were committed for several grant programs but not spent (disbursed) at the end of the fiscal year.

As of September 30, 1999, MEDC's total deposits and investments were \$116,011,373 and \$ 61,737,505, respectively.

c. Investments

Equity investments in business and industrial development corporations (BIDCOs) are carried at the lower of aggregate cost or fair value. MEDC has determined that cost will be used to approximate fair value.

Other investments are carried at fair value.

In accordance with GASB Statement No. 3, investments are also classified into three categories of credit risk as follows:

Category 1: Investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent not in the entity's name.

The following table shows the fair value, which also represents the carrying value, of investments at September 30, 2000 by investment type and in total and does not include the checking account balances:

Investment Type	GASB Credit Risk Category			Not Categorized	Total Fair Value
	1	2	3		
Corporate securities	\$	\$	\$60,139,211	\$	\$ 60,139,211
Government securities			33,377,297		33,377,297
Equity	6,359,630				6,359,630
Mutual funds				20,936,886	20,936,886
Nonmarketable Securities				11,975,682	11,975,681
Total Investments	<u>\$ 6,359,630</u>	<u>\$0</u>	<u>\$93,516,508</u>	<u>\$ 32,912,568</u>	<u>\$ 132,788,705</u>

The fair value of investments at September 30, 1999 was \$157,681,495, of which \$6,491,788 and \$139,447,607 were recorded in GASB credit risk category 1 and category 3, respectively. The balance of \$11,742,100 was not categorized in any credit risk category.

Note 3 Transfers

During fiscal year 1998-99, an equity transfer of \$170,792,948 (as restated) was made from MSF to MEDC. This represented a transfer of net assets of MSF as of May 1999.

The following items represent operating transfers from MSF:

	Fiscal Year	
	1999-2000	1998-99
Gaming revenue and bond revenue fees	\$ 8,574,780	\$ 25,443,583
State's General Fund appropriation	114,905,079	101,370,722
State's restricted appropriation	1,461,317	
State's tobacco revenue appropriation	50,000,000	
Total operating transfers from MSF	<u>\$ 174,941,176</u>	<u>\$ 126,814,305</u>

Note 4 Mortgages and Loans Receivable

Loans receivable consisted of the following:

	Fiscal Year	
	1999-2000	1998-99
Urban Land Assembly Loan Fund loans	\$ 3,312,184	\$ 3,901,053
Seed capital loans	7,800,000	7,800,000
BIDCO	6,494,610	10,948,523
Other loans	26,441,221	25,301,853
Total	<u>\$ 44,048,015</u>	<u>\$ 47,951,429</u>
Less: Allowance for uncollectible loans	<u>(23,109,918)</u>	<u>(28,977,279)</u>
Total Loans Receivable	<u>\$ 20,938,097</u>	<u>\$ 18,974,150</u>

As more fully disclosed in Note 1.g., MEDC restated the prior year balances to include Urban Land Assembly Loan Fund loans.

Seed capital loans are uncollateralized, 10-year term loans (which can be extended) bearing interest at 9% per annum with a balloon payback required at the end of the loan period.

BIDCO and other loans are collateralized loans bearing varying rates of interest and repayment terms.

Loans issued by the Michigan Economic Development Authority, a predecessor entity to MEDC, are included in the "Other loans" category. The loans are collateralized, for qualifying projects, on the basis of participating up to 50% with other public or private lenders. The loans are due under varying repayment terms, including interest at predominantly 9.5% per annum.

Inducement loans are collateralized loans bearing interest at predominantly 5% per annum with varying repayment terms.

The current portion of loans receivable includes those payments expected to be received during the next fiscal year.

MEDC provided no additional allowance during the fiscal year ended September 30, 2000 for loans receivable that MEDC expected to be converted to grants or uncollectible. Loan provisions are reduced for the amounts recovered, BIDCO credits, and write-offs for the nonperforming loans. The loans generally provide for no principal or interest payments during the term of the loans. These loans are expected to be converted to grants at the end of their term provided that the borrowers meet certain conditions. The conditions generally require the borrowers to continue to conduct their principal business activities in the State of Michigan and submit specified reports to MEDC.

Note 5 Bond Programs

All bond programs are handled by MSF. Income generated from bond issuance fees is transferred to MEDC on a monthly basis.

Note 6 Commitments

Of the fiscal year 1999-2000 total fund equity (\$325,644,329), a portion is committed for the following economic development projects:

Access Technology - North Coast	\$ 744,000
Capital Access Program	1,127,079
Center for Career Training	16,384,862
Center for Michigan's Renaissance	9,236,840
Center for Virtual Learning	15,709,484
Detroit Downtown Development Authority	8,740,868
Emerging Technology Fund	3,000,000
Minority Investments	3,703,315
Research	276,941
Technology Transfer Program	800,000
Life Science Program	48,339,797
Michigan Core Communities Fund	49,999,883
Michigan Technical Education Center (M-TEC)	27,213,427
Economic Development Job Training Grants	29,633,173
Total	<u>\$ 214,909,669</u>

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SUPPLEMENTAL  
FINANCIAL SCHEDULE

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

Federal Agency/Program or Cluster	For the Fiscal Year Ended September 30, 1999				
	CFDA (2) Number	Pass-Through Identification 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		\$	\$ 617,554	\$ 617,554
<b>Total U.S. Department of Commerce</b>			<b>\$ 0</b>	<b>\$ 617,554</b>	<b>\$ 617,554</b>
<b>U.S. Department of Labor</b>					
Pass-Through Program:					
Michigan Department of Career Development Employment Service	17.207	205-99	\$	\$	\$
<b>Total U.S. Department of Labor</b>			<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Total Expenditures of Federal Awards			<b>\$ 0</b>	<b>\$ 617,554</b>	<b>\$ 617,554</b>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Michigan Economic Development Corporation 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 from the Michigan Strategic Fund on May 1, 1999.

<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>
<u>\$</u>	<u>\$ 4,102,090</u>	<u>\$ 4,102,090</u>	<u>\$ 4,719,644</u>
<u>\$ 0</u>	<u>\$ 4,102,090</u>	<u>\$ 4,102,090</u>	<u>\$ 4,719,644</u>
<u>\$ 1,143,626</u>	<u>\$</u>	<u>\$ 1,143,626</u>	<u>\$ 1,143,626</u>
<u>\$ 1,143,626</u>	<u>\$ 0</u>	<u>\$ 1,143,626</u>	<u>\$ 1,143,626</u>
<u>\$ 1,143,626</u>	<u>\$ 4,102,090</u>	<u>\$ 5,245,716</u>	<u>\$ 5,863,270</u>

# OTHER SCHEDULES

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION  
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:** April 1, 1999 through September 30, 1999

**Finding Number:** 1

**Finding Title:** MEDC Accounting and Financial Reporting

**Finding:** The Michigan Economic Development Corporation (MEDC), in conjunction with the Department of Management and Budget, did not record certain financial transactions properly and in a timely manner.

**Status:** MEDC 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 ECONOMIC DEVELOPMENT CORPORATION  
Corrective Action Plan  
As of June 5, 2001

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**Finding Number:** 07M0101  
**Finding Title:** Subrecipient Monitoring  
**Management Views:** We agree with the recommendation.  
**Corrective Action:** We have a procedure in place to sign this agreement prior to the beginning of the fiscal year. No payments will be released from the finance office until the agreement is signed. Also, we will receive and review a copy of the Single Audit report of the subrecipient.  
**Anticipated Completion Date:** June 2001  
**Responsible Individual:** Jeffrey Kaczmarek

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**FINDINGS RELATED TO FEDERAL AWARDS**

There were no findings related to federal awards for fiscal years 1998-99 and 1999-2000.

## Glossary of Acronyms and Terms

BIDCO	business and industrial development corporation.
CDBG	Community Development Block Grant.
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.
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.
NIST	National Institute of Standards and Technology.
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.