MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2007 through September 30, 2009

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

271-0406-10

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Economic Development Corporation

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2007 through September 30, 2009

Report Number:
271-0406-10

Released:
December 2009

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Economic Development Corporation (MEDC) was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on MEDC's financial statements.

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Internal Control Over Financial Reporting

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

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Noncompliance and Other Matters Material to the Financial Statements

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

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Background:

Article VII, Section 28 of the Michigan Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created in April 1999 by a 10-year contract (interlocal agreement, as amended) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund (MSF). Article VI of the interlocal agreement provides for the automatic renewal of this initial 10-year term for two renewal periods of five years each. As of April 2009, this interlocal agreement has been automatically renewed for another five years. MEDC is a separate legal entity created to promote smart economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents. Under the terms of the agreement, the governance of MEDC resides in an Executive Committee of 20 members appointed to eight-year, staggered terms by the Governor.

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

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

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

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Deputy Auditor General

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

December 29, 2009

Mr. D. Gregory Main, President and Chief Executive Officer
and
Mr. Matthew P. Cullen, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Main and Mr. Cullen:

This is our report on the financial audit of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, for the period October 1, 2007 through September 30, 2009.

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

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

AUDITOR GENERAL

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MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

GLOSSARY

INDEPENDENT AUDITOR'S REPORT

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

Independent Auditor's Report on the Financial Statements

Mr. D. Gregory Main, President and Chief Executive Officer
and
Mr. Matthew P. Cullen, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Main and Mr. Cullen:

We have audited the accompanying basic financial statements of the Michigan Economic Development Corporation, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents. 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 1, the financial statements present only the Michigan Economic Development Corporation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2009 and September 30, 2008 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Economic Development Corporation as of September 30, 2009 and September 30, 2008 and the changes in financial position and cash flows 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 our report dated December 15, 2009 on our consideration of the Michigan Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The management's discussion and analysis for the comparison between the fiscal years ended September 30, 2008 and September 30, 2007 was not presented because this information was presented with the Michigan Economic Development Corporation's prior year audited financial statements.

AUDITOR GENERAL

December 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Economic Development Corporation's (MEDC's) management has prepared this discussion and analysis of the financial performance of MEDC for the period October 1, 2008 through September 30, 2009. MEDC is a public body corporate and a discretely presented component unit of the financial reporting entity of the State of Michigan. MEDC's management is responsible for the basic financial statements, the notes to the financial statements, and this discussion.

Using the Financial Report

This financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The reporting standards require a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows (direct method). This financial report includes the reports of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements. Amounts reported in the financial statements include both the MEDC corporate funds as well as the State funds made available to MEDC.

The financial statements are interrelated and represent the financial status of MEDC. The statement of net assets presents assets and liabilities as of the end of the fiscal year. The statement of revenues, expenses, and changes in fund net assets presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash in-flows and out-flows summarized by operating, capital and related financing, and investing activities.

Major Changes

Effective March 2008, the State of Michigan settled a tribal gaming lawsuit. As part of the settlement, the State amended its terms with American Indian tribes operating casinos under the 1998 compact. Under the amended compact, all tribes with existing casinos will contribute 6% of their net win from electronic gaming to the Michigan Strategic Fund (MSF). The new terms also allow tribes to adjust future payments up or down based on three-year averages as well as the opening of new casinos in their regions. The State also agreed to extend the tribes' right to operate casinos through October 2028. In return for this rate adjustment and time extension, the tribes have agreed to changes in the revenue sharing terms that will make these payments much more stable in the future.

Analysis of Financial Activities

The assets of MEDC exceeded its liabilities by $136.5 million at September 30, 2009 and by $130.5 million at September 30, 2008. As of September 30, 2009, $27.7 million of this amount was in equity in common cash of the State of Michigan.

Condensed Financial Information
From the Statement of Net Assets
As of September 30

	2009	2008
Current assets	$ 96,359,811	$102,810,974
Noncurrent assets		
Loans receivable	$ 17,339,888	$ 22,416,200
Investments	24,458,251	4,920,730
Capital assets (net)	9,972,925	10,420,751
Interest receivable		221,385
Advances to primary government	1,359,737	
Total noncurrent assets	$ 53,130,801	$ 37,979,066
Total assets	$149,490,612	$140,790,040
Current liabilities	$ 11,865,861	$ 9,085,400
Long-term liabilities	1,122,859	1,194,948
Total liabilities	$ 12,988,720	$ 10,280,348
Net assets		
Invested in capital assets	$ 9,972,925	$ 10,420,751
Unrestricted net assets	126,528,967	120,088,941
Total net assets	$136,501,892	$130,509,692

Current assets primarily consist of amounts held in cash and cash equivalents (money market funds and short-term investments) by MEDC, funds in the State of Michigan's equity in common cash, short-term loans receivable, amounts due from MSF, and receivables for gaming revenues. Interest earned on funds retained in the common

cash pool of the State of Michigan is the income of the State and is not transferred to MEDC.

Current assets decreased by $6.5 million in fiscal year 2008-09 due to increased program related expenses. The 2007-08 assets included receivable for onetime casino settlement funds.

Loans receivable include the long-term portion of the outstanding loans, net of loan loss provisions. Long-term loans receivable decreased by $5.1 million in fiscal year 2008-09 primarily because some loans were paid in full, $0.6 million was converted to investment, and $0.6 million was written off during the year.

Capital assets (net) at September 30, 2009 included the cost of the MEDC headquarters building, furniture, and information technology equipment, net of depreciation. During fiscal year 2008-09, capital assets worth $0.2 million were added.

Advances to primary government at September 30, 2009 represent amounts given to the Department of Treasury as an advance to implement the Public Private Partnership program.

Current liabilities at September 30, 2009 increased by $2.8 million primarily consisting of accounts payable at year-end including payroll obligations.

Long-term liabilities consisted of $1.1 million in long-term compensated absences.

Overall, **net assets** increased by $6.0 million during fiscal year 2008-09 as a result of the preceding activities.

Condensed Financial Information
From the Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Years Ended September 30

	2009	2008
Operating revenues		
Operating grants and contributions	$ 57,420,392	$ 69,844,288
Interest and investment earnings	1,717,536	1,505,172
Other operating revenues	8,291,595	7,655,450
Total operating revenues	$ 67,429,523	$ 79,004,910
Operating expenses		
Salaries, wages, and other administrative expenses	$ 37,292,044	$ 35,092,416
Payment to MSF and primary government	113,240	27,275
Operating grants	24,032,039	21,797,693
Total operating expenses	$ 61,437,323	$ 56,917,384
Operating income (loss)	$ 5,992,200	$ 22,087,526
Change in net assets	$ 5,992,200	$ 22,087,526
Total net assets - Beginning	130,509,692	108,422,166
Total net assets - Ending	$136,501,892	$130,509,692

Operating grants and contributions included $1.3 million for one federal grant, $27.3 million received from State funding for the economic development programs, and $28.8 million in tribal gaming revenue and miscellaneous fees transferred from MSF. In fiscal year 2008-09, operating grants and contributions decreased by $12.4 million primarily because 2007-08 included onetime casino settlement funds.

Other operating revenues primarily consisted of revenues from the Michigan Department of Transportation for the reimbursement of the costs of the operation of the Welcome Centers and the Michigan Business Services Improvement Initiative (MBSii) of $4.7 and $0.8 million, respectively; tribal gaming revenues of $2.5 million received directly by MEDC; and other income. MEDC receives tribal gaming revenue from the

Keweenaw Bay Indian Community of 8% of the net win derived from all class III electronic games of chance.

Salaries, wages, and other administrative expenses for fiscal year 2008-09 increased by $2.2 million primarily because of the recognition of expenditures for bad debt, increased staff cost, and increased cost of consulting services.

Operating grants for fiscal year 2008-09 included grant commitments for the Economic Development Job Training Program, Michigan Manufacturing Technical Institute, Alternative Energy Program, Urban Loan Program, Pre seed fund competition, Small Business Technical Development Center grants, pass-through federal grants for 21st Century Workforce Regional grants, and marketing program expenses. Operating grants increased by $2.2 million primarily because of new grants for Pre seed fund competition.

Condensed Financial Information
From the Statement of Cash Flows
For the Fiscal Years Ended September 30

	2009	2008
Cash provided (used) by:		
Operating activities	$ 29,338,374	$23,937,464
Capital and related financing activities	(229,472)	(340,900)
Investing activities	(29,918,172)	385,414
Net increase (decrease) in cash	$ (809,270)	$23,981,978
Cash and cash equivalents at beginning of fiscal year	69,873,920	45,891,942
Cash and cash equivalents at end of fiscal year	$ 69,064,650	$69,873,920

Cash and cash equivalents at the end of fiscal year 2008-09 ($69.1 million) primarily included $41.0 million in checking and money market accounts in Bank of America and $27.7 million equity in the State of Michigan common cash.

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BASIC FINANCIAL STATEMENTS

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Net Assets
As of September 30

	2009	2008
ASSETS		
Current assets:		
Cash (Note 2)	$ 41,037,540	$ 690,543
Equity in common cash (Note 2)	27,672,468	27,528,046
Money market fund (Note 2)	354,642	41,655,331
Tribal gaming receivable	1,303,688	2,126,085
Amounts due from MSF	10,656,636	27,725,996
Amounts due from federal agencies		68,504
Loans receivable (Note 3)	2,671,026	2,200,003
Investments (Note 2)	11,763,435	
Other current assets:		
Interest receivable	219,580	91,206
Miscellaneous	680,796	725,260
Total current assets	$ 96,359,811	$ 102,810,974
Noncurrent assets:		
Loans receivable (Note 3)	$ 17,339,888	$ 22,416,200
Investments (Note 2)	24,458,251	4,920,730
Capital assets (net) (Note 4)	9,972,925	10,420,751
Advances to primary government	1,359,737	
Interest receivable		221,385
Total noncurrent assets	$ 53,130,801	$ 37,979,066
Total assets	$ 149,490,612	$ 140,790,040
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	$ 9,671,692	$ 7,474,029
Compensated absences (Note 5)	1,295,243	1,371,956
Amounts due to primary government	898,926	174,790
Amounts due to MSF		26,572
Deferred revenues		38,052
Total current liabilities	$ 11,865,861	$ 9,085,400
Long-term liabilities:		
Compensated absences (Note 5)	$ 1,122,859	$ 1,194,948
Total long-term liabilities	$ 1,122,859	$ 1,194,948
Total liabilities	$ 12,988,720	$ 10,280,348
NET ASSETS		
Invested in capital assets	$ 9,972,925	$ 10,420,751
Unrestricted net assets	126,528,967	120,088,941
Total net assets	$ 136,501,892	$ 130,509,692

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Years Ended September 30

	2009	2008
OPERATING REVENUES (Note 1)		
Operating grants and contributions		
Federal revenue	$ 1,270,377	$ 2,886,195
Payments from MSF - State appropriations (Note 7)	27,303,873	32,653,312
Payments from MSF - Tribal gaming and fees (Note 7)	28,846,142	34,304,781
Total operating grants and contributions	$ 57,420,392	$ 69,844,288
Interest and investment earnings		
Investment earnings	$ 888,285	$ 1,158,476
Net increase (decrease) in fair value of investments	401,487	(393,752)
Interest income on loans	427,764	740,449
Total interest and investment earnings	$ 1,717,536	$ 1,505,172
Other operating revenues		
Tribal gaming	$ 2,474,012	$ 2,623,023
Other operating revenues	5,817,583	5,032,427
Total other operating revenues	$ 8,291,595	$ 7,655,450
Total operating revenues	$ 67,429,523	$ 79,004,910
OPERATING EXPENSES (Note 1)		
Salaries, wages, and other administrative expenses	$ 37,292,044	$ 35,092,416
Payment to MSF	49,159	27,275
Payments to primary government	64,081	
Operating grants	24,032,039	21,797,693
Total operating expenses	$ 61,437,323	$ 56,917,384
Operating income (loss)	$ 5,992,200	$ 22,087,526
Change in net assets	$ 5,992,200	$ 22,087,526
Total net assets - Beginning	130,509,692	108,422,166
Total net assets - Ending	$ 136,501,892	$ 130,509,692

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Cash Flows
For the Fiscal Years Ended September 30

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to employees	$ (22,617,559)	$ (20,567,852)
Payments to suppliers	(13,448,426)	(13,849,756)
Tribal gaming revenue	3,296,409	2,519,127
Other operating revenue	6,289,811	5,706,848
Grants received from federal government	1,338,881	3,336,113
Operating grants	(18,626,877)	(19,291,839)
Payment to MSF	(49,159)	(27,275)
Payments to Primary Government	(64,081)	
Payments from MSF	73,219,375	66,112,097
Net cash provided (used) by operating activities	$ 29,338,374	$ 23,937,464
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets (Note 4)	$ (229,472)	$ (340,900)
Net cash provided (used) by capital and related financing activities	$ (229,472)	$ (340,900)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investment securities	$ (30,899,469)	$ (532,500)
Interest and dividends on investments	981,297	917,914
Net cash provided (used) by investing activities	$ (29,918,172)	$ 385,414
Net cash provided (used) - All activities	$ (809,270)	$ 23,981,978
Cash and cash equivalents at beginning of fiscal year	69,873,920	45,891,942
Cash and cash equivalents at end of fiscal year	$ 69,064,650	$ 69,873,920
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$ 41,037,540	$ 690,543
Equity in common cash	27,672,468	27,528,046
Money market mutual funds	354,642	41,655,331
Cash and cash equivalents at end of fiscal year	$ 69,064,650	$ 69,873,920
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 5,992,200	$ 22,087,526
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest (nonprogram) and investment income	(981,297)	(917,914)
Depreciation	677,298	559,429
Net increase (decrease) in fair value of investments	(401,487)	393,752
Changes in assets and liabilities:		
Amounts due from MSF and tribal gaming revenue receivable	17,891,757	(949,891)
Loans receivable (program loans)	3,245,551	3,350,405
Amounts due from federal agencies	68,504	449,918
Other assets	137,476	(306,589)
Accounts payable and other liabilities	2,708,372	(729,171)
Net cash provided (used) by operating activities	$ 29,338,374	$ 23,937,464
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loans converted to equity	$ 557,198	$ 1,334,969
Increase/(decrease) in fair value of investments	596,955	(371,190)
Net noncash provided (used) by investing, capital, and financing activities	$ 1,154,153	$ 963,779

The accompanying notes are an integral part of 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 (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

a. Reporting Entity

Article VII, Section 28 of the Michigan Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created in April 1999 by a 10-year contract (interlocal agreement, as amended) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund (MSF). Article VI of the interlocal agreement provides for the automatic renewal of this initial 10-year term for two renewal periods of five years each. As of April 2009, this interlocal agreement has been automatically renewed for another five years. MEDC is a separate legal entity created to promote smart economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents. Under the terms of the agreement, the governance of MEDC resides in an Executive Committee of 20 members appointed to eight-year, staggered terms by the Governor.

MEDC is a discretely presented component unit of the financial reporting entity of the State of Michigan. MEDC is a component unit in the State of Michigan reporting entity because the primary government appoints the governing board of MEDC and there is a potential for MEDC to provide specific financial benefits to, or impose specific financial burdens on, the State.

b. Financial Statement Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB).

MEDC follows the business type activities reporting requirements of GASB Statement No. 34, which provides for a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

MEDC's operations 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. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with GAAP.

c. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the economic resources measurement focus and the full accrual basis of accounting as provided by GAAP applicable to governments. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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 by MSF from tribal gaming, Private Activity Bonds (PABs) (previously known as industrial development revenue bond [IDRB]) issuance fees, and Michigan Economic Growth Authority and Brownfield fees are 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 are also made available to MEDC, as needed.

MEDC financial statements primarily present the following:

(1) Cash and Cash Equivalents: The amount reported as "Cash and cash equivalents at end of year" on the statement of cash flows is equal to the total of the amounts reported on the statement of net assets for the line items entitled "Cash," "Equity in common cash," and "Money market fund."

(2) Amounts Due From MSF: Amounts due from MSF include the tribal gaming revenue.

(3) Investments: MEDC reports investments for the money market fund, government securities, corporate securities, Exchange Traded Funds, and equities at fair value and venture capital investments using cost-based measures unless fair value is readily determinable.

(4) Loans Receivable: Loans receivables are reported net of allowance for losses.

(5) Capital Assets: Capital assets, which mainly include a building, furniture, and equipment, are reported at historical cost, net of depreciation.

(6) Current Liabilities: Current liabilities primarily include accounts payable established for program and administrative expenses and the current portion of compensated absences.

(7) Long-Term Liabilities: Long-term liabilities include compensated absences for employees' unused sick, banked, and annual leave payable when employees terminate employment.

(8) Operating Revenues: Operating revenues include revenues from federal grants, other restricted sources, amounts available to MEDC from State appropriations, tribal gaming revenue, and investment earnings. Also included in operating revenues are tribal gaming and

fees collected by MSF and transferred to MEDC for PAB issuance, the Michigan Economic Growth Authority, and Brownfield programs during the fiscal year.

(9) Operating Expenses: Operating expenses include expenses related to program grants funded by State appropriations transferred to MEDC and MEDC nonappropriated funds. Also included in operating expenses are administrative expenses incurred from State appropriations transferred to MEDC.

Note 2 Deposits and Investments

a. Deposits

	As of September 30	
	2009	2008
Equity in common cash	$27,672,468	$27,528,046
Checking account	5,539,859	60,543
Money market account	35,497,681	630,000
Total deposits	$68,710,008	$28,218,589

Custodial Credit Risk: Governmental accounting standards require disclosures related to custodial credit risks for deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, MEDC's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in MEDC's name.

Deposits included in MEDC's bank accounts (without recognition of outstanding checks or deposits in transit) were $41,153,779 at September 30, 2009 ($1,052,741 at September 30, 2008). Of that amount, $34,747,681 at September 30, 2009 ($883,350 at September 30, 2008) was uninsured and uncollateralized. There were no deposits collateralized with securities held by the pledging financial institution or by

the pledging financial institution's trust department or agent but not in MEDC's name. MEDC has no policy for controlling custodial credit risk.

MEDC's deposits included in the State of Michigan's equity in common cash are managed by the State Treasurer. The State Treasurer's policy requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2009 and September 30, 2008, 99.96% and 99.9%, respectively, of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

b. Investments

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, 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.

MEDC investments in the money market fund, government and corporate securities, and equities are reported at fair value. The fair value is determined by the investment custodian and provided to MEDC in monthly statements. MEDC investments in venture capital are generally reported using cost-based measures unless fair value is readily determinable.

MEDC makes grant and loan commitments as a part of its economic development mission. These commitments are paid from the proceeds of the investments held in short-term and long-term securities. The timing of cash required for program commitments is dependent upon the completion of projects, and MEDC attempts to match investment maturities with its cash flow needs to meet grant commitments. For this reason, investments have frequent turnover and the proceeds from sales and maturities of all investments are shown as a net balance on the statement of cash flows.

The following table shows the fair value of investments at September 30, 2009 by investment type and in total:

		Investment Maturities			
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Money market fund	$ 354,642	$ 354,642	$	$	$
Corporate securities	24,665,060	11,763,435	12,901,625		
Equities	238,310		238,310		
Mutual funds	6,255,694			6,255,694	
Venture capital - Limited partner	3,017,333			3,017,333	
Venture capital - Stocks	2,045,287			2,045,287	
Total investments	$36,576,326	$12,118,077	$13,139,935	$11,318,314	$ 0

The following table shows the fair value of investments at September 30, 2008 by investment type and in total:

		Investment Maturities			
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Money market fund	$41,655,331	$41,655,331	$	$	$
Government securities	52,459				52,459
Equities	358,744		358,744		
Venture capital - Limited partner	3,021,434			3,021,434	
Venture capital - Stocks	1,488,093			1,488,093	
Total investments	$46,576,061	$41,655,331	$358,744	$4,509,527	$ 52,459

Governmental accounting standards require disclosures for investments for interest rate risk, custodial credit risk, credit risk, foreign currency risk, and concentration of credit risk:

1) Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. MEDC does not have a policy regarding interest rate risk. As of September 30, 2009, investments in the money market fund and corporate securities with a market value of $25 million were exposed to interest rate risk. As of September 30, 2008, investments in the money market fund and government securities with a market value of $41.7 million were exposed to interest rate risk.

2) Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, MEDC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of MEDC, and are held by either the counterparty or the counterparty's trust department or agent but not in MEDC's name.

As of September 30, 2009, investments in corporate securities, equities, and mutual funds with a market value of $31.2 million were exposed to custodial credit risk. As of September 30, 2008, investments in government securities and equities with a market value of $0.4 million were exposed to custodial credit risk. These securities are registered in MEDC's name and held by the U.S. Trust - Bank of America. MEDC's investments in venture capital limited partnerships were excluded from custodial credit risk because they were not an investment security. MEDC's investments in venture capital stocks were not exposed to custodial credit risk because they were held by U.S. Trust - Bank of America in MEDC's name. MEDC did not have a policy for limiting custodial credit risk.

3) Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GAAP requires disclosures of the credit quality ratings of investments in debt securities. MEDC had the following policy for controlling credit risk of debt securities in fiscal years 2008-09 and 2007-08. Short-term investments (less than one year) shall have a credit rating of not less than A-1/P-1. Long-term investments shall have a credit rating equal to BBB or better. The average quality rating of the fixed income portfolio shall have a credit rating of BBB or better.

The following table shows the credit quality ratings of investments in debt securities as of September 30, 2009:

Investment Type	Fair Value	Credit Quality Rating: Standard & Poor's	Credit Quality Rating: Moody's Investors Service
Corporate securities	$ 2,074,500	AAA	AA2
	1,021,860	AA+	AA2
	1,544,495	AA	AA1
	1,033,760	AA	AA2
	523,605	AA	A1
	3,021,810	AA-	AA3
	1,555,585	AA-	A1
	1,543,080	A+	AA1
	505,180	A+	AA2
	1,030,320	A+	AA3
	1,581,060	A+	A1
	7,714,700	A	A2
	1,515,105	A	A3
Mutual funds	6,255,694	NR	NR
Money market fund	354,642	NR	A
Total investments	$31,275,396		

The following table shows the credit quality ratings of investments in debt securities as of September 30, 2008:

Investment Type	Fair Value	Credit Quality Rating: Standard & Poor's	Credit Quality Rating: Moody's Investors Service
Government securities - U.S. agencies	$ 52,459	AAA	Aaa
Money market fund	41,655,331	AAA	Aaa
Total investments	$41,707,790		

4) Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2009 and September 30, 2008, MEDC did not have any investments in foreign securities.

5) Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MEDC's investments with a single issuer. MEDC does not have a policy limiting the dollar value of investments with a single issuer.

At September 30, 2009, MEDC had investments in the following issuer for more than 5% of MEDC's total investments:

Name of Issuer	Amount	Percent of Investments
Onset BIDCO	$2,000,000	6%

At September 30, 2008, MEDC had no investments for more than 5% of MEDC's total investments with a single issuer.

Note 3 Loans Receivable

Loans receivable consisted of the following:

	As of September 30	
	2009	2008
Urban Land Assembly Fund loans	$ 3,841,620	$ 4,322,696
Seed capital loan	3,400,000	3,400,000
BIDCO loans	48,071	1,737,000
Life Sciences Program	2,844,663	4,562,159
Michigan Core Community Fund Program	11,109,421	12,424,269
Other loans	8,532,421	8,725,361
Total	$29,776,196	$ 35,171,485
Less: Allowance for uncollectible loans	(9,765,282)	(10,555,282)
Total loans receivable	$20,010,914	$ 24,616,203

Loans included in the "Other loans" category are collateralized, for qualifying projects, on the basis of participating up to 50% with other public or private lenders. The current portion of loans receivable includes those payments expected to be received during the next fiscal year.

Note 4 Capital Assets

MEDC recorded its capital assets at cost and depreciates them over their useful lives using the straight-line depreciation method (30 years for building and improvement, 3 years for furniture and equipment). Capital asset activities for the fiscal year ended September 30, 2009 were as follows:

Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Building and improvement	$13,086,970	$	$	$ 13,086,970
Furniture	2,756,398	187,061		2,943,459
Non-EDP equipment	78,265			78,265
EDP equipment	1,156,811	42,411		1,199,222
Capital assets (cost)	$17,078,445	$ 229,472	$ 0	$ 17,307,917
Less accumulated depreciation for:				
Building and improvement	$ (3,081,374)	$ (436,608)	$	$ (3,517,982)
Furniture	(2,596,898)	(131,185)		(2,728,083)
Non-EDP equipment	(78,265)			(78,265)
EDP equipment	(901,157)	(109,505)		(1,010,662)
Total accumulated depreciation	$ (6,657,694)	$ (677,298)	$ 0	$ (7,334,992)
Capital assets (net)	$10,420,751	$ (447,826)	$ 0	$ 9,972,925

Capital asset activities for the fiscal year ended September 30, 2008 were as follows:

Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Building and improvement	$ 13,086,970	$	$	$13,086,970
Furniture	2,626,384	130,015		2,756,398
Non-EDP equipment	78,265			78,265
EDP equipment	945,925	210,886		1,156,811
Capital assets (cost)	$ 16,737,545	$ 340,900	$ 0	$17,078,445
Less accumulated depreciation for:				
Building and improvement	$ (2,644,766)	$ (436,608)	$	$ (3,081,374)
Furniture	(2,529,799)	(67,098)		(2,596,898)
Non-EDP equipment	(78,265)			(78,265)
EDP equipment	(845,434)	(55,723)		(901,157)
Total accumulated depreciation	$ (6,098,265)	$ (559,429)	$ 0	$ (6,657,694)
Capital assets (net)	$ 10,639,280	$ (218,529)	$ 0	$10,420,751

Note 5 Long-Term Liabilities

Long-term liabilities are accrued when incurred. The following table summarizes compensated absences liabilities of MEDC for the fiscal years ended September 30, 2009 and September 30, 2008, respectively:

	Fiscal Year 2008-09				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$2,566,904	$ 993,281	$1,142,083	$2,418,102	$1,295,243

	Fiscal Year 2007-08				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$2,562,909	$1,122,461	$1,118,466	$2,566,904	$1,371,956

Note 6 Pension Plans and Other Postemployment Benefits

a. Classified Employees

State classified employees detailed to MEDC are covered by one of two single employer plans offered by the State of Michigan: the State Employees' Defined Benefit Retirement Plan or the State Employees' Defined Contribution Retirement Plan (Plans). Detailed information regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports.

In addition to the Plans, State classified employees have the option to invest a portion of their salaries into 401(k) and 457 deferred compensation plans. Generally, MEDC does not make any contributions to the deferred compensation plans.

State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

For the State Employees' Defined Benefit Retirement Plan, MEDC was billed and paid an average 30.6% ($2,391,795) and 26.5% ($2,255,888) of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2008-09 and 2007-08, respectively. For the State Employees' Defined Contribution Retirement Plan, MEDC is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. MEDC's contributions for the Plan were $294,397 and $243,255 for fiscal years 2008-09 and 2007-08, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Management and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

b. Nonclassified Employees

MEDC offers a retirement plan (under Section 401(a) of the Internal Revenue Code) to nonclassified employees after one year of service. MEDC also offers a deferred compensation plan (under Section 457 of the Internal Revenue Code) to nonclassified employees upon employment. Both plans are administered by Pension Trend, a third party administrator, and the employees manage their own investments. Other than making contributions to the 401(a) retirement plan, MEDC does not have any other pension benefit obligation liability. Nonclassified employees do not have any other postemployment benefits.

On August 5, 1999, the MEDC Executive Committee approved an employer contribution rate of 8% of an employee's gross wages to the 401(a) retirement plan for eligible employees. Vesting of the benefits occurs over a five-year period. During fiscal year 2007-08, the MEDC Executive Committee approved a contribution rate up to 18% for the chief executive officer and a contribution rate of 12% for employees in senior vice president positions. All contributions are made on a biweekly basis. Employees cannot contribute to this plan. For the fiscal years ended September 30, 2009 and September 30, 2008, MEDC made contributions to the plan of $305,429 and $267,047, respectively.

MEDC makes no contributions to the 457 deferred compensation plan. Only employees make contributions to the plan. For the fiscal years ended September 30, 2009 and September 30, 2008, MEDC employees contributed $235,352 and $220,649, respectively, to the plan.

Note 7 Revenues From MSF

Revenues from MSF consisted of the following:

	Fiscal Year	
	2008-09	2007-08
Tribal gaming and fees	$28,846,142	$34,304,781
State's General Fund programs	27,221,518	32,587,445
Other State restricted programs	82,355	65,867
Total revenues from MSF	$56,150,015	$66,958,093

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Mr. D. Gregory Main, President and Chief Executive Officer
and
Mr. Matthew P. Cullen, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Main and Mr. Cullen:

We have audited the basic financial statements of the Michigan Economic Development Corporation, a discretely presented component unit of the State of Michigan, for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Michigan Economic Development Corporation Executive Committee, others within the entity, the Governor, and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

December 15, 2009

GLOSSARY

Glossary of Acronyms and Terms

BIDCO	business and industrial development corporation.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GAAP	accounting principles generally accepted in the United States of America.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MBSii	Michigan Business Services Improvement Initiative.
MEDC	Michigan Economic Development Corporation.
MSF	Michigan Strategic Fund.
PAB	Private Activity Bond.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL