

FINANCIAL AUDIT  
OF THE

**MICHIGAN STRATEGIC FUND**  
(A Component Unit of the State of Michigan)

October 1, 2001 through September 30, 2003

“...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

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*

Report Number:  
 07-401-04

*Michigan Strategic Fund*

*October 1, 2001 through September 30, 2003*

Released:  
 August 2004

*A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial statements. This financial audit of the Michigan Strategic Fund (MSF) 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 MSF'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 Material to the Financial Statements**

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

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**Background:**

MSF was created by Act 270, P.A. 1984, to help diversify the economy of the State

and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing.

Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency. This Executive Order also transferred various programs and functions of the Michigan Jobs Commission to MSF and authorized MSF to enter into an interlocal agreement with local public agencies. Under this authority, MSF created the Michigan Economic Development Corporation (MEDC) as a new public entity to help administer the programs transferred to MSF.

Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency to the Department of Labor and Economic Growth.

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<http://audgen.michigan.gov>



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Lansing, Michigan 48913

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

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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

August 17, 2004

Mr. David C. Hollister, President  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Hollister:

This is our report on the financial audit of the Michigan Strategic Fund (MSF) for the period October 1, 2001 through September 30, 2003.

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

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

AUDITOR GENERAL

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# INDEPENDENT AUDITOR'S REPORT



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

## Independent Auditor's Report on the Financial Statements

February 5, 2004

Mr. David C. Hollister, President  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial statements of the Michigan Strategic Fund, a component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents. These financial statements are the responsibility of the Michigan Strategic Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the financial statements present only the Michigan Strategic Fund 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, 2003 and September 30, 2002 and the changes in financial position 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 Strategic Fund as of

September 30, 2003 and September 30, 2002 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis for the fiscal year ended September 30, 2003 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 supplementary information. However, we did not audit the information and express no opinion on it. The management's discussion and analysis for the fiscal year ended September 30, 2002 was not presented because this information was presented in the Michigan Strategic Fund's prior year's audited financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 2004 on our tests of the Michigan Strategic Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

AUDITOR GENERAL

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

This is a discussion and analysis of the financial performance of the Michigan Strategic Fund (MSF) for the fiscal year ended September 30, 2003. Act 270, P.A. 1984, created MSF. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency, governed by a nine-member board of directors. Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency to the Department of Labor and Economic Growth. MSF is a component unit of the financial reporting entity of the State of Michigan. MSF's management is responsible for the financial statements, 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 fund balance sheet; a statement of net assets; a statement of revenues, expenditures, and changes in fund balance; and a statement of activities.
- The reporting standards also require that special purpose governments provide both fund financial statements and government-wide financial statements. GASB Statement No. 34 also provides for combining these statements using a format that reconciles the two statements. Because this entity does not have any reconciling items, the statements are presented using one column for both presentations.

This financial report includes the reports of independent auditors, management's discussion and analysis, the basic financial statements, and the notes to the financial statements.

The financial statements are interrelated and represent the financial status of MSF. As previously noted, the balance sheet is now referred to as the fund balance sheet and statement of net assets, which includes assets and liabilities.

The statement of revenues, expenditures, and changes in fund balance is combined with the statement of activities to present the revenues earned and expenditures incurred during the year.

**Analysis of Financial Activities**

The primary source of revenue for MSF is legislative appropriations from the State of Michigan. MSF also collects an 8% share of the net revenues from two casinos operated by Native American tribes.

Except for the administrative cost of classified employees detailed to the Michigan Economic Development Corporation (MEDC) and federal Community Development Block Grants (CDBG) funding, all funds received by MSF from the State of Michigan are used at the discretion of the MEDC Executive Committee within the legislative intent of the appropriations act.

**Condensed Financial Information**  
**From the Fund Balance Sheet and Statement of Net Assets**  
As of September 30

	2003	2002
Amounts due from federal government	\$ 7,624,651	\$ 7,608,360
Other current assets	6,852,061	4,748,978
Total Assets	<u>\$ 14,476,712</u>	<u>\$ 12,357,339</u>
Amounts due to MEDC	\$ 6,366,057	\$ 4,600,000
Other current liabilities	8,054,155	7,633,470
Total Liabilities	<u>\$ 14,420,212</u>	<u>\$ 12,233,470</u>
Total Fund Balance/Net Assets	<u>56,500</u>	<u>123,869</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 14,476,712</u>	<u>\$ 12,357,339</u>

**Amounts due from federal government** primarily consist of receivables for federal pass-through funds for the CDBG Program and corresponds to **other current liabilities**, which primarily include amounts payable to the subgrantees from these federal pass-through funds.

**Other current assets** primarily include the tribal gaming revenue receivable for six months (April 1, 2003 through September 30, 2003). The amount reported was based on prior reporting period revenues and recent trends.

**Amounts due to MEDC** reflect revenues (tribal gaming revenue, etc.) collected after the end of the fiscal year and transferred to MEDC in the following months in accordance with the terms of the interlocal agreement.

**Total Fund Balance/Net Assets** reflect primarily cash on hand at the end of the fiscal year.

**Condensed Financial Information From the Fund Statement of Revenues,  
Expenditures, and Changes in Fund Balance and Statement of Activities**  
For the Fiscal Years Ended September 30

	2003	2002
Revenues		
Charges for services	\$ 1,565,028	\$ 1,122,974
Operating grants and contributions	37,670,845	35,860,762
Payments from the State of Michigan	85,081,586	105,002,770
Other	13,773,387	13,133,114
Total Revenues	\$ 138,090,846	\$ 155,119,620
Expenditures/Expenses		
CDBG	\$ 37,114,967	\$ 35,645,228
Payments to MEDC	100,227,016	115,691,890
Other	816,231	3,834,799
Total Expenditures/Expenses	\$ 138,158,215	\$ 155,171,918
Excess of Revenues Over Expenditures/ Expenses/		
Change in Net Assets	\$ (67,369)	\$ (52,297)
Fund Balance/Net Assets - Beginning	123,869	176,166
Fund Balance/Net Assets - Ending	\$ 56,500	\$ 123,869

**Charges for services** primarily consist of industrial development revenue bond (IDRB) issuance fees and application fees for the Michigan Economic Growth Authority (MEGA)

and Brownfield. The increase in charges for services revenue during fiscal year 2002-03 reflects increased activities for IDRB, MEGA, and Brownfield.

**Operating grants and contributions** increased primarily because of an increase of CDBG federal pass-through grant expenditures and corresponding federal revenue by the subgrantees.

**Payments from the State of Michigan** primarily consist of the State's General Fund and Tobacco Settlement Trust Fund appropriations for MSF. Payments from the State of Michigan declined in fiscal year 2002-03 primarily because of a reduction in the State appropriation from the State General Fund for the Economic Development Job Training Program (\$14.2 million) and the Tobacco Settlement Trust Fund for the Life Science Program (\$12.5 million). This also accounts for reduced payments to MEDC in fiscal year 2002-03 when compared with fiscal year 2001-02.

**Other** revenues primarily include tribal gaming revenue.

#### **Other Pertinent Information**

The opening of two more casinos covered by a 1998 compact is expected in future years and may increase tribal gaming revenue. The opening dates of these casinos and the estimated revenue are not certain.

During fiscal year 1996-97 through fiscal year 2002-03, MSF disbursed \$37.9 million CDBG federal funds for Industrial Park Loans/Grants to various local government entities. Per the agreement, local entities either could receive credits for creating a specific number of jobs or would need to return the funds to MSF. As of September 30, 2003, local entities received \$10.0 million in job credits and repaid \$4.0 million. In the event that no further jobs are created by these local entities, MSF may receive up to \$24.0 million in future years. These returned funds are treated as recaptured funds and, per federal regulation, are reused for other CDBG purposes.

# FINANCIAL STATEMENTS

MICHIGAN STRATEGIC FUND  
Fund Balance Sheet and Statement of Net Assets  
As of September 30

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current Assets:		
Cash (Note 2)	\$ 50,000	\$ 87,087
Equity in common cash	431,994	
Amounts due from federal government	7,624,651	7,608,360
Amounts due from local units		
Other current assets (Note 3)	6,370,067	4,661,891
Total Current Assets	<u>\$ 14,476,712</u>	<u>\$ 12,357,339</u>
 Total Assets	 <u>\$ 14,476,712</u>	 <u>\$ 12,357,339</u>
 <b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and other liabilities	\$ 7,882,524	\$ 7,554,532
Amounts due to MEDC	6,366,057	4,600,000
Amounts due to primary government	9,910	10,502
Deferred revenue	161,721	68,436
Total Current Liabilities	<u>\$ 14,420,212</u>	<u>\$ 12,233,470</u>
Total Liabilities	<u>\$ 14,420,212</u>	<u>\$ 12,233,470</u>
 <b>FUND BALANCE/NET ASSETS</b>		
Unreserved fund balance/Unrestricted net assets	\$ 56,500	\$ 123,869
Total Fund Balance/Net Assets	<u>\$ 56,500</u>	<u>\$ 123,869</u>
 Total Liabilities and Fund Balance/Net Assets	 <u>\$ 14,476,712</u>	 <u>\$ 12,357,339</u>

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

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

	2003	2002
<b>REVENUES</b> (Note 1d)		
<u>Charges for Services</u>		
IDRB issuance fees	\$ 635,034	\$ 370,637
Other fees	929,994	752,337
<u>Operating Grants and Contributions</u>		
Community Development Block Grant (federal) (Note 6)	35,278,394	33,147,308
Community Development Block Grant (local and others) (Note 6)	1,615,228	1,948,935
Employment Services (federal)	777,224	764,519
<u>Miscellaneous Revenues</u>		
Payment from MEDC	12,775	2,937,913
Payments from General Fund (Note 6)	52,581,586	60,002,770
Payments from Tobacco Settlement Trust Fund (Note 6)	32,500,000	45,000,000
Tribal gaming (Note 6)	13,262,232	10,004,898
Miscellaneous	498,380	190,303
Total Revenues	\$ 138,090,846	\$ 155,119,620
 <b>EXPENDITURES/EXPENSES</b> (Note 1d)		
Administrative	\$ 565,682	\$ 651,073
Community Development Block Grant	37,114,967	35,645,228
Payments to MEDC	100,227,016	115,691,890
Payments to General Fund (indirect and refund)	250,549	3,183,726
Total Expenditures/Expenses	\$ 138,158,215	\$ 155,171,918
 Excess of Revenues Over Expenditures/Expenses/ Change in Net Assets	\$ (67,369)	\$ (52,297)
 Fund Balance/Net Assets - Beginning	123,869	176,166
 Fund Balance/Net Assets - Ending	\$ 56,500	\$ 123,869

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

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

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

#### a. Reporting Entity

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

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

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

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

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

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

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

b. Financial Statement Presentation

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

MSF is a governmental fund. The accompanying financial statements present only MSF. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its component units in conformity with generally accepted accounting principles.

c. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

GASB Statement No. 34 requires that special purpose governments provide both fund financial statements and government-wide financial statements. GASB Statement No. 34 also provides for combining these statements using a format that reconciles the individual line items of the fund level (modified accrual) to the government-wide level (full accrual). Because this entity does not have any reconciling items (such as long-term debt and capital assets), the statements are presented using one column with combined titles.

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 gaming, industrial development revenue bond (IDRB) issuance fees, and other sources 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.

MSF financial statements primarily present the following:

- (1) Revenues: Amounts received from tribal gaming revenue, CDBG from the U.S. Department of Housing and Urban Development, Employment Services grant from the U.S. Department of Labor, and other restricted revenues. Also included in revenues are the amounts available to MSF from State appropriations for fiscal years 2002-03 and 2001-02.
- (2) Expenditures: CDBG pass-through grants and other minor administrative expenditures. Expenditures for the Employment Services grant from the U.S. Department of Labor were recorded in MEDC's financial statements. Also included in expenditures are the funds transferred to MEDC during fiscal years 2002-03 and 2001-02 for the tribal gaming revenue, IDRB issuance fees, MEGA and Brownfield fees, and State appropriations to MSF.

Note 2 Deposits and Investments

a. Deposits

Deposits reflected in MSF's bank accounts (without recognition of outstanding checks or deposits in transit) at September 30, 2003 were \$50,000, which was covered by federal depository insurance and was classified in GASB credit risk category 1. As of September 30, 2002, the deposit amounts were \$87,087, which was covered by federal depository insurance.

b. Investments

No investment activities occurred during either fiscal year.

Note 3 Other Current Assets

MSF's other current assets totaled \$6,370,067 at September 30, 2003 (\$4,661,891 at September 30, 2002). These balances consisted of:

	As of September 30	
	2003	2002
Other Current Assets:		
Tribal gaming revenue	\$ 6,366,057	\$ 4,600,000
Miscellaneous	4,010	61,891
Total Other Current Assets	<u>\$ 6,370,067</u>	<u>\$ 4,661,891</u>

Note 4 Bond Programs

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

The total amount of IDRBs issued by MSF and its predecessor entity for the period January 1, 1979 through September 30, 2003 was \$6,510,273,339 (\$5,893,793,339 through September 30, 2002). The total amount of bonds issued by MSF under the Taxable Bond Program for the period October 1, 2002 through September 30, 2003 was \$205,000 (\$14,210,000 for the period October 1, 2001 through September 30, 2002).

Note 5 Contingencies and Commitments

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

In January 2000, an Ingham County circuit judge issued a declaratory ruling that the four new compacts were adopted in an unconstitutional manner. The

State has appealed that ruling. It is not anticipated that this ruling will have an immediate effect on payments from the tribes because the compacts remain in effect until a federal court rules that they are void. It is not anticipated that federal authorities would or could pursue such a ruling until after State appeals are exhausted. The State prevailed at the Michigan Court of Appeals and TOMAC appealed to the Michigan Supreme Court, which has agreed to hear the case. A decision is not expected until 2004 at the earliest.

Note 6 Major Revenue Sources

The implementation of GASB Statement No. 34 requires that amounts received from State appropriations be treated as direct revenue. MSF recorded \$52,581,586 (\$60,002,770 in fiscal year 2001-02) and \$32,500,000 (\$45,000,000 in fiscal year 2001-02) received from the State General Fund and Tobacco Settlement Trust Fund appropriations, respectively, as revenues in fiscal year 2002-03.

MSF recorded \$36,893,621 (\$35,096,243 in fiscal year 2001-02) in revenue during fiscal year 2002-03 for the CDBG Program. This amount represented approximately 69.6% (74.4% for the fiscal year ended September 30, 2002) of total revenues (excluding funding from State appropriations) for the fiscal year ended September 30, 2003.

Another major revenue source for MSF is its 8% share of the net revenues derived from the class III electronic games of chance of two casinos located in Michigan. During the fiscal year ended September 30, 2003, revenue was recognized from this source in the amount of \$13,262,232 (\$10,004,898 during the fiscal year ended September 30, 2002). This amount represented approximately 25.0% (21.2% for the fiscal year ended September 30, 2002) of total revenues (excluding funding from State appropriations) for the fiscal year ended September 30, 2003.

Note 7 Subsequent Events

Under the Governor's Executive Order No. 2003-18, effective December 7, 2003, MSF was transferred by type IV transfer from the Department of Management and Budget to the Department of Labor and Economic Growth. MSF will remain an autonomous agency.

The Executive Order also transferred the Board position designated for the director of the Department of Management and Budget to the director of the Department of Labor and Economic Growth.

INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE AND INTERNAL CONTROL



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

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

February 5, 2004

Mr. David C. Hollister, President  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial statements of the Michigan Strategic Fund, a component unit of the State of Michigan, for the fiscal years ended September 30, 2003 and September 30, 2002, as identified in the table of contents, and have issued our report thereon dated February 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Compliance

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

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Strategic Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 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 Strategic Fund's Board of Directors and management 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

# GLOSSARY

## Glossary of Acronyms and Terms

<b>CDBG</b>	Community Development Block Grant.
<b>financial audit</b>	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.
<b>GASB</b>	Governmental Accounting Standards Board.
<b>IDRB</b>	industrial development revenue bond.
<b>internal control</b>	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>material misstatement</b>	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.
<b>material weakness</b>	A reportable condition related to the design or operation of internal control that 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 schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
<b>MEDC</b>	Michigan Economic Development Corporation.
<b>MEGA</b>	Michigan Economic Growth Authority.

**MSF** Michigan Strategic Fund.

**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 record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.

**TOMAC** Taxpayers of Michigan Against Casinos.