



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

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

*Performance Audit*

Report Number:  
271-0410-07

*21st Century Jobs Trust Fund Programs*

*Michigan Strategic Fund and  
Strategic Economic Investment and  
Commercialization Board*

Released:  
September 2007

*Acts 225, 213, and 215, P.A. 2005, amended the Michigan Strategic Fund Act to create new programs to make investments and to award grants and loans for the purpose of diversifying Michigan's economy and helping to create jobs in the areas of competitive edge technologies. These programs include the 21st Century Investments Program, the Life Sciences Pipeline Program, competitive edge technology grants and loans, and projects specifically appropriated in Act 225, P.A. 2005.*

**Audit Objective:**

To assess the effectiveness of the Michigan Strategic Fund's (MSF's) processes for awarding grants, loans, and contracts and making investments for economic development.

**Audit Conclusion:**

We concluded that MSF's processes for awarding grants, loans, and contracts and making investments for economic development were effective. Our audit report does not include any reportable conditions related to this objective.

~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of the Strategic Economic Investment and Commercialization (SEIC) Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State.

**Audit Conclusion:**

We concluded that the SEIC Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State were effective. Our audit report does not include any reportable conditions related to this objective.

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**Audit Objective:**

To assess the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st century investments, competitive edge technology grants and loans, and projects specifically appropriated in Act 225, P.A. 2005.

**Audit Conclusion:**

MSF had not begun its evaluation of economic development outcome data as of June 30, 2007. As a result, we could not conclude on the effectiveness of MSF's processes for evaluating the economic

development outcomes of the 21st Century Jobs Trust Fund programs and our audit report does not include any reportable conditions related to this objective.

The projects financed through the 21st Century Jobs Trust Fund programs are multi-year projects and, as of June 30, 2007, had been ongoing for less than a year. MSF's evaluation processes consist of identifying relevant and measurable economic development outcome data and collecting and evaluating the data for inclusion in MSF's annual report to the Legislature. MSF is not required to report on its evaluation of the economic development outcomes for fiscal year 2006-07 until March 2008.

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



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THOMAS H. MCTAVISH, C.P.A.  
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September 28, 2007

Mr. James C. Epolito, President  
Michigan Strategic Fund  
300 North Washington Square  
Lansing, Michigan  
and  
Dr. Mary Sue Coleman, Vice Chair  
Strategic Economic Investment and  
Commercialization Board  
2074 Fleming Building  
503 Thompson Street  
Ann Arbor, Michigan

Dear Mr. Epolito and Dr. Coleman:

This is our report on the performance audit of the 21st Century Jobs Trust Fund Programs administered by the Michigan Strategic Fund and the Strategic Economic Investment and Commercialization Board.

This report contains our report summary; description of programs; audit objectives, scope, and methodology; comments; various exhibits, presented as supplemental information; 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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GLOSSARY

Glossary of Acronyms and Terms

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## Description of Programs

### Statutory Authority

Act 270, P.A. 1984, created the Michigan Strategic Fund (MSF) to help diversify the economy of the State and to provide for economic development. Acts 225, 213, and 215, P.A. 2005, amended the Michigan Strategic Fund Act to create new programs to make investments and to award grants and loans for the purpose of diversifying Michigan's economy and helping to create jobs in the areas of competitive edge technologies\*. These programs include the 21st Century Investments Program, the Life Sciences Pipeline Program, competitive edge technology grants and loans, and projects specifically appropriated\* in Act 225, P.A. 2005. Exhibit 1, presented as supplemental information, provides an overview of these programs. Exhibit 2, also presented as supplemental information, provides a summary of the funds allocated and expended and invested by program.

Act 225, P.A. 2005, appropriated \$394.0 million to MSF to implement these 21st Century Jobs Trust Fund programs and required the MSF Board to determine the annual allocation of funding among the programs and to make authorized expenditures or investments. In addition, Act 213, P.A. 2005, provided that MSF establish a Michigan life sciences pipeline to promote the development of businesses engaged in providing goods and services related to the commercialization\* of life sciences. The MSF Board consists of the Michigan Economic Development Corporation's chief executive officer, the State Treasurer, the director of the Department of Labor and Economic Growth, and 8 members appointed by the Governor with the advice and consent of the Senate. The MSF Board contracted with the Michigan Economic Development Corporation to provide administrative services for all 21st Century Jobs Trust Fund programs.

Act 215, P.A. 2005, created the Strategic Economic Investment and Commercialization (SEIC) Board to award competitive edge technology grants and loans for basic research\*; applied research\*; university technology transfer\*; and commercialization of products, processes, and services. The SEIC Board is composed of the State Treasurer, the director of the Department of Labor and Economic Growth, and 17 members representing various universities and competitive edge technology sectors.

\* See glossary at end of report for definition.

### 21st Century Investments Program

The purpose of the 21st Century Investments Program, administered by the MSF Board, is to strengthen and diversify Michigan's economy by investing in funds as a method to create jobs and provide financial assistance for the creation of new businesses or industries. A principal function of the Program is to expand the availability of venture capital\*, private equity\*, and mezzanine\* funds. As part of the 21st Century Investments Program, the MSF Board allocated \$114.0 million to be invested in venture capital, private equity, and mezzanine funds.

MSF entered into a contract with DLJ MB Advisor, Inc. (DLJ), an affiliate of Credit Suisse Group, to review investment proposals, make recommendations, manage the investment programs, and report on investment activities to the MSF Board. As of June 30, 2007, DLJ had evaluated 44 investment fund proposals and recommended 6 investment funds, which were approved by the MSF Board for investment. Exhibit 3, presented as supplemental information, provides detail regarding the \$55.0 million approved for investment and the \$1.9 million invested as of June 30, 2007.

### Life Sciences Pipeline Program

In July 2006, MSF contracted with the Michigan Biosciences Industry Association (MichBio) to develop and manage the Life Sciences Pipeline Program. MichBio was contracted to develop a network linking life science researchers and businesses with vendors of related products and services. Under the contract, MichBio is to recruit Michigan-based businesses involved in life sciences research and commercialization, assist the members with developing and marketing life sciences research and commercialization, and maintain a list of members of the Life Sciences Pipeline and the services provided by the members. During January 2007, MichBio provided MSF with a business plan that described the proposed key pipeline operations and services. The Life Sciences Pipeline is still in the start-up phase and has incurred start-up costs; however, as of June 30, 2007, it did not have any members. The MSF Board allocated \$1.4 million of funding to the Life Sciences Pipeline Program and had expended \$0.5 million as of June 30, 2007.

### Competitive Edge Technology Grants and Loans

The SEIC Board established a competitive process to award grants and loans to organizations that research or commercialize products, processes, or services for life

\* See glossary at end of report for definition.

sciences technology\*; advanced automotive, manufacturing, and materials technology\*; homeland security and defense technology\*; or alternative energy technology\*. The SEIC Board issued two requests for proposals: one for commercialization activities related to bringing a new product to market and one for commercialization support services for activities that assist companies bringing a product to market. The SEIC Board contracted with the American Association for the Advancement of Science (AAAS) to evaluate the proposals and make recommendations to the SEIC Board on which proposals to fund. Of the 505 proposals received, 465 passed the compliance screening then moved on to the AAAS initial review process. AAAS had three evaluators review and score each of the 465 proposals during the initial review process. The SEIC Board approved 180 proposals and invited the applicants to participate in the interview review process, where they were interviewed by 6 AAAS evaluators. AAAS highly recommended 85 proposals to the SEIC Board. The SEIC Board approved all 85 proposals. Subsequent to the SEIC Board's approval, 1 applicant rescinded and 6 applicants withdrew their proposals. As of June 30, 2007, \$51.4 million had been expended of the \$126.3 million awarded to the 78 grants and loans. The remaining award funding will be paid in incremental amounts as milestone goals are achieved for each proposal. The SEIC Board also recommended to the MSF Board a \$12.0 million allocation to facilitate the retention of Pfizer assets under the life science technologies requirement provided for in Act 225, P.A. 2005. Exhibits 4 and 5, presented as supplemental information, provide summary and detail information of the grants and loans.

#### Projects Specifically Appropriated in Act 225, P.A. 2005

Act 225, P.A. 2005, provided appropriations for specific projects administered by other State agencies, nonprofit companies, or for-profit companies. Exhibit 6, presented as supplemental information, details the \$72.2 million appropriation for projects and the \$15.8 million administrative funding and the amounts disbursed as of June 30, 2007.

\* See glossary at end of report for definition.

## Audit Objectives, Scope, and Methodology

### Audit Objectives

Our performance audit\* of the 21st Century Jobs Trust Fund Programs, Michigan Strategic Fund (MSF) and Strategic Economic Investment and Commercialization (SEIC) Board, had the following objectives:

1. To assess the effectiveness\* of MSF's processes for awarding grants, loans, and contracts and making investments for economic development.
2. To assess the effectiveness of the SEIC Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State.
3. To assess the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st century investments, competitive edge technology grants and loans, and projects specifically appropriated in Act 225, P.A. 2005.

### Audit Scope

Our audit scope was to examine the program and other records of the 21st Century Jobs Trust Fund programs. Our audit was conducted in accordance with *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. Our audit procedures, conducted from April through August 2007, generally covered the period October 1, 2005 through June 30, 2007.

In connection with our audit, we compiled supplemental information about the 21st Century Jobs Trust Fund programs based on information provided by MSF. Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

\* See glossary at end of report for definition.

## Audit Methodology

We conducted a preliminary review of MSF's operations to gain an understanding of its activities for the 21st Century Jobs Trust Fund programs. We interviewed MSF staff and reviewed applicable statutes, laws, rules, appropriations acts, contracts, loan and grant agreements, policies, and procedures. The purpose of our preliminary review was to obtain an understanding of MSF's operations in order to plan our audit.

To assess the effectiveness of MSF's processes for awarding grants, loans, and contracts and making investments for economic development, we reviewed grants, loans, and contracts for projects specifically appropriated and investments to determine whether the contractual services and investments were made in accordance with applicable statutes, laws, rules, appropriations acts, policies, and procedures. We examined the MSF Board's meeting minutes and resolutions, procurement practices, requests for proposal, evaluation of proposals, conflict of interest procedures and disclosure statements, and other information we considered necessary.

To assess the effectiveness of the SEIC Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State, we selected a sample of applicant proposals for competitive edge technology grants and loans to review. For our sample proposals, we reviewed the SEIC Board and Michigan Economic Development Corporation staff processes for ensuring that the awards for grants and loans complied with applicable statutes, laws, rules, policies, and procedures. We examined the SEIC Board's meeting minutes and resolutions, procurement practices, requests for proposal, evaluation of proposals, conflict of interest procedures and disclosure statements, and other information we considered necessary.

To assess the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st century investments, competitive edge technology grants and loans, and projects specifically appropriated, we selected a sample of investments, grants, and loans to review. For our sample, we examined records to assess whether MSF monitored the performance of the economic development projects. We could not conclude on the effectiveness of MSF's processes to evaluate economic development outcomes for the 21st Century Jobs Trust Fund programs because MSF has not completed its collection, verification, and reporting of data.

# COMMENTS

## **EFFECTIVENESS OF MSF'S PROCESSES FOR AWARDING GRANTS, LOANS, AND CONTRACTS AND MAKING INVESTMENTS FOR ECONOMIC DEVELOPMENT**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of the Michigan Strategic Fund's (MSF's) processes for awarding grants, loans, and contracts and making investments for economic development.

**Conclusion:** We concluded that MSF's processes for awarding grants, loans, and contracts and making investments for economic development were effective. Our audit report does not include any reportable conditions\* related to this objective.

## **EFFECTIVENESS OF THE SEIC BOARD'S PROCESSES FOR AWARDING GRANTS, LOANS, AND CONTRACTS FOR COMPETITIVE EDGE TECHNOLOGIES**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of the Strategic Economic Investment and Commercialization (SEIC) Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State.

**Conclusion:** We concluded that the SEIC Board's processes for awarding grants, loans, and contracts to encourage the development of competitive edge technologies to create jobs in the State were effective. Our audit report does not include any reportable conditions related to this objective.

\* See glossary at end of report for definition.

## **EFFECTIVENESS OF MSF'S PROCESSES FOR EVALUATING THE OUTCOMES OF THE PROGRAMS**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st century investments, competitive edge technology grants and loans, and projects specifically appropriated in Act 225, P.A. 2005.

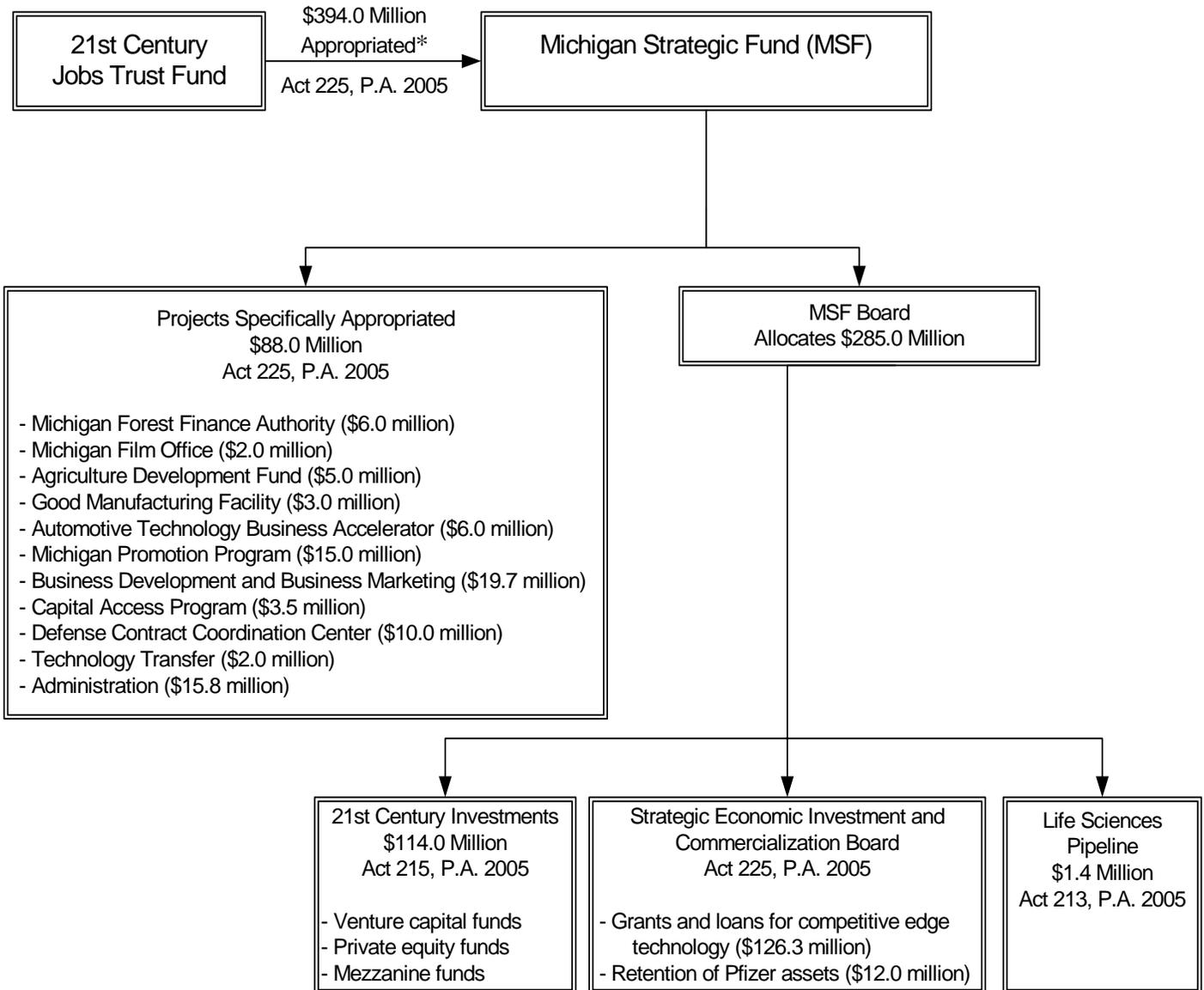
**Conclusion:** MSF had not begun its evaluation of economic development outcome data as of June 30, 2007. As a result, we could not conclude on the effectiveness of MSF's processes for evaluating the economic development outcomes of the 21st Century Jobs Trust Fund programs and our audit report does not include any reportable conditions related to this objective.

The projects financed through the 21st Century Jobs Trust Fund programs are multi-year projects and, as of June 30, 2007, had been ongoing for less than a year. MSF's evaluation processes consist of identifying relevant and measurable economic development outcome data and collecting and evaluating the data for inclusion in MSF's annual report to the Legislature. MSF is not required to report on its evaluation of the economic development outcomes for fiscal year 2006-07 until March 2008.

Exhibit 2, presented as supplemental information, provides a summary of the funds allocated and expended and invested by program as of June 30, 2007. Exhibit 7, also presented as supplemental information, provides a time line of key events for awards, contracts, and disbursements for the 21st Century Jobs Trust Fund programs.

# SUPPLEMENTAL INFORMATION

**21st CENTURY JOBS TRUST FUND PROGRAMS**  
 Overview of Programs  
 As of June 30, 2007



\* Total appropriations of \$394.0 million were reduced by \$20.0 million in Executive Order No. 2007-03 and by \$1.0 million in a reduced work project as of September 30, 2006. As of June 30, 2007, the MSF Board had not allocated \$31.4 million of the original appropriation.

Source: Acts 225, 215, and 213, P.A. 2005.

21st CENTURY JOBS TRUST FUND PROGRAMS  
Summary of Funds Allocated and Expended and Invested by Program  
As of June 30, 2007

| Program                                      | Total Allocated           | Total Expended<br>and Invested | Percent Expended<br>and Invested of<br>Total Allocated |
|--|---------------------------|--------------------------------|--|
| 21st Century Investments Program             | \$ 114,000,000            | \$ 2,967,162                   | 2.6%   |
| Life Sciences Pipeline Program               | 1,400,000                 | 529,725                        | 37.8%  |
| Competitive edge technology grants and loans | 126,255,744               | 51,444,705                     | 40.8%  |
| Retention of Pfizer assets*                  | 12,000,000                |                                |  |
| Projects specifically appropriated           | <u>87,960,000</u>         | <u>36,799,183</u>              | 41.8%  |
| <br>Total                                    | <br><u>\$ 341,615,744</u> | <br><u>\$ 91,740,775</u>       |  |

\* The Michigan Strategic Fund (MSF) Board authorized \$12.0 million in funding for the retention of Pfizer assets during May 2007. In June, the MSF Board awarded the funding to three economic development agencies. As of June 30, 2007, MSF had not entered into contracts with the economic development agencies.

Source: MSF Board meeting minutes and accounting records.

21st CENTURY JOBS TRUST FUND PROGRAMS  
21st Century Investments Program  
As of June 30, 2007

|   | <u>Competitive Edge<br/>Technology</u>                                    | <u>Amount Approved<br/>for Investment<br/>(maximum)</u> | <u>Amount<br/>Invested</u> |
|---|---|---|----------------------------|
| <u>Venture Capital Investments</u>        |   |   |                            |
| Nth Power Fund IV, LP                     | Alternative energy  | \$ 10,000,000   | \$ 1,504,254               |
| Arboretum Ventures II, LP                 | Life sciences   | 7,500,000   | 401,771                    |
| EDF Ventures IV, LP (1)                   | Life sciences   | 7,500,000   |                            |
| Venture Investors Early Stage Fund IV, LP | Life sciences and advanced<br>automotive, manufacturing, and<br>materials | 10,000,000  |                            |
| <u>Private Equity Investments</u>         |   |   |                            |
| Quad Partners II, LP (1)                  | (2)   | 10,000,000  |                            |
| Relativity Fund, LP (1)                   | (2)   | <u>10,000,000</u>                                       |                            |
| Total (3)                                 |   | <u>\$ 55,000,000</u>                                    | <u>\$ 1,906,025</u>        |

(1) The Michigan Strategic Fund (MSF) Board has approved investments in these funds; however, as of June 30, 2007, limited partnership agreements had not been executed.

(2) Section 125.2088f(g) of the *Michigan Compiled Laws* requires that 80% of funds invested in the venture capital investment program shall focus on competitive edge technologies; however, this does not apply to the private equity investments.

(3) The MSF Board has allocated funding up to \$114.0 million for investments and management fees. As of June 30, 2007, the MSF Board had approved investments of \$55.0 million and invested \$1.9 million and expended \$1.0 million in management fees for a total of \$2.9 million expended and invested.

Source: MSF Board meeting minutes and accounting records.

21st CENTURY JOBS TRUST FUND PROGRAMS  
Summary of Competitive Edge Technology Grants and Loans  
by Organization Type, Category, and Activities and Services  
As of June 30, 2007

|  | <u>Number of<br/>Awards</u> | <u>Total Awards</u>   | <u>Percent of<br/>Total Awards</u> |
|--|-----------------------------|-----------------------|------------------------------------|
| <u>All Grants and Loans</u>                                  |                             |                       |                                    |
| Grants   | 49                          | \$ 69,392,771         | 55.0%                              |
| Loans  | 29                          | 56,862,973            | 45.0%                              |
| Total  | <u>78</u>                   | <u>\$ 126,255,744</u> | <u>100.0%</u>                      |
| <br><u>By Organization Type</u>                              |                             |                       |                                    |
| Michigan institution of higher education                     | 30                          | \$ 34,783,542         | 27.6%                              |
| Michigan-based for-profit company                            | 29                          | 56,862,973            | 45.0%                              |
| Michigan-based nonprofit corporation                         | 10                          | 19,301,645            | 15.3%                              |
| Michigan-based nonprofit research institution                | 8                           | 13,307,584            | 10.5%                              |
| Michigan-based nonprofit support service company             | 1                           | 2,000,000             | 1.6%                               |
| Total  | <u>78</u>                   | <u>\$ 126,255,744</u> | <u>100.0%</u>                      |
| <br><u>By Competitive Edge Technology Category</u>           |                             |                       |                                    |
| Advanced automotive, manufacturing, and materials technology | 34                          | \$ 52,958,881         | 41.9%                              |
| Life sciences technology                                     | 30                          | 49,734,554            | 39.4%                              |
| Homeland security and defense technology                     | 8                           | 11,907,459            | 9.4%                               |
| Alternative energy technology                                | 6                           | 11,654,850            | 9.2%                               |
| Total  | <u>78</u>                   | <u>\$ 126,255,744</u> | <u>100.0%</u>                      |
| <br><u>By Activities and Services</u>                        |                             |                       |                                    |
| Applied research activities                                  | 33                          | \$ 49,054,280         | 38.9%                              |
| Commercialization activities                                 | 19                          | 34,655,223            | 27.4%                              |
| Basic research activities                                    | 7                           | 5,069,077             | 4.0%                               |
| Commercialization support services                           |                             |                       |                                    |
| Statewide technology support networks                        | 6                           | 10,483,799            | 8.3%                               |
| Business acceleration services                               | 4                           | 2,757,457             | 2.2%                               |
| Specialized business services                                | 4                           | 5,922,909             | 4.7%                               |
| Pre-seed funds   | 3                           | 15,787,999            | 12.5%                              |
| Existing wet laboratory facility redevelopment               | 2                           | 2,525,000             | 2.0%                               |
| Total  | <u>78</u>                   | <u>\$ 126,255,744</u> | <u>100.0%</u>                      |

Source: Michigan Strategic Fund accounting records.



UNAUDITED

Exhibit 5

21st CENTURY JOBS TRUST FUND PROGRAMS  
Awards of Competitive Edge Technology Grants and Loans  
As of June 30, 2007

| <u>Organization</u>                         | <u>Award Amount</u> |
|---|---------------------|
| <u>Grants</u>                               |                     |
| Ann Arbor Spark                             | \$ 8,000,000        |
| Battle Creek Unlimited                      | 430,000             |
| BBC Entrepreneurial Training Corporation    | 426,804             |
| Center for Automotive Research              | 3,149,755           |
| Core Technology Alliance (CTA Corp)         | 3,020,000           |
| Fraunhofer USA                              | 823,557             |
| Fraunhofer USA, Inc.                        | 322,904             |
| Fraunhofer USA, Center for Laser Technology | 1,094,084           |
| Great Lakes Entrepreneur's Quest            | 600,000             |
| Karmanos Cancer Institute                   | 1,596,728           |
| Karmanos Cancer Institute                   | 2,606,786           |
| Lake Superior State University              | 350,250             |
| Lawrence Technological University           | 899,996             |
| Michigan Research Institute                 | 2,199,940           |
| Michigan State University                   | 1,401,865           |
| Michigan State University                   | 250,000             |
| Michigan State University                   | 659,677             |
| Michigan State University                   | 1,443,689           |
| Michigan State University                   | 2,077,191           |
| Michigan State University                   | 914,492             |
| Michigan State University                   | 2,425,851           |
| Michigan State University                   | 966,608             |
| Michigan State University                   | 661,511             |
| Michigan State University                   | 1,380,990           |
| Michigan State University                   | 329,725             |
| Michigan State University                   | 884,637             |
| Michigan State University                   | 1,050,781           |
| Michigan Technological University           | 808,832             |
| Michigan Venture Capital Association        | 2,100,000           |
| MI-SBTDC - Grand Valley State University    | 2,000,000           |
| NextEnergy Center                           | 2,923,165           |
| Southwest Michigan Innovation Center        | 500,000             |
| Southwest Michigan Innovation Center        | 525,000             |
| TechTown                                    | 776,676             |
| University of Michigan                      | 493,999             |
| University of Michigan                      | 895,000             |

*This exhibit continued on next page.*

21st CENTURY JOBS TRUST FUND PROGRAMS  
Awards of Competitive Edge Technology Grants and Loans  
As of June 30, 2007  
*Continued*

| <u>Organization</u>              | <u>Award Amount</u>  |
|----------------------------------|----------------------|
| University of Michigan           | \$ 899,713           |
| University of Michigan           | 1,670,811            |
| University of Michigan           | 285,100              |
| University of Michigan           | 1,248,904            |
| University of Michigan           | 4,724,999            |
| University of Michigan           | 1,228,172            |
| Van Andel Research Institute     | 1,513,830            |
| Wayne State University           | 830,277              |
| Wayne State University           | 700,841              |
| Wayne State University           | 2,030,156            |
| Wayne State University           | 302,761              |
| Western Michigan University      | 966,714              |
| Western Michigan University      | 2,000,000            |
| Subtotal for grants              | <u>\$ 69,392,771</u> |
| <br><u>Loans</u>                 |                      |
| AAPharmaSyn LLC                  | \$ 750,000           |
| Accuri Instruments, Inc.         | 2,000,000            |
| Adaptive Materials, Inc.         | 6,271,190            |
| Advanced Resource Recovery, LLC  | 1,912,000            |
| Afid Therapeutics, Inc.          | 1,665,725            |
| Avidimer Therapeutics, Inc.      | 2,250,000            |
| Biodiscovery, LLC                | 2,194,675            |
| Clifford Group                   | 3,511,000            |
| Compendia Bioscience, Inc.       | 1,238,212            |
| ElectroJet Incorporated          | 962,600              |
| Evigia Systems, Inc.             | 1,736,300            |
| Genetics Squared, Inc.           | 1,569,999            |
| IA, Inc./ ThreeFold Sensors      | 2,600,657            |
| Integrated Sensing Systems, Inc. | 974,999              |
| KTM Industries, Inc.             | 2,011,185            |
| Meditrina Pharmaceuticals, Inc.  | 3,829,733            |
| Molecular Imaging Research, Inc. | 1,233,374            |
| NanoBio Corporation              | 2,377,526            |
| NexusTech Ventures               | 3,063,000            |
| Polytorx                         | 1,500,000            |

*This exhibit continued on next page.*

21st CENTURY JOBS TRUST FUND PROGRAMS  
Awards of Competitive Edge Technology Grants and Loans  
As of June 30, 2007  
*Continued*

| <u>Organization</u>         | <u>Award Amount</u>   |
|-----------------------------|-----------------------|
| ProNAi Therapeutics, Inc.   | \$ 3,297,826          |
| Solidica, Inc.              | 1,295,259             |
| Sonetics Ultrasound, Inc.   | 1,214,682             |
| Tellurex Corporation        | 1,263,950             |
| Translume, Inc.             | 1,650,510             |
| TSRL, Inc.                  | 968,715               |
| Velcura Therapeutics, Inc.  | 2,000,000             |
| XB TransMed Solutions, LLC  | 508,263               |
| Zeeland Farm Services, Inc. | 1,011,593             |
| Subtotal for loans          | <u>\$ 56,862,973</u>  |
| Total for grants and loans  | <u>\$ 126,255,744</u> |

Source: Michigan Strategic Fund accounting records.

21st CENTURY JOBS TRUST FUND PROGRAMS  
Summary of Activity for Projects Specifically Appropriated  
As of June 30, 2007

|   | <u>Amount</u><br><u>Appropriated</u> | <u>Amount</u><br><u>Expended</u> |
|---|--------------------------------------|----------------------------------|
| Projects Administered by:                   |                                      |                                  |
| <u>Other State Agencies</u>                 |                                      |                                  |
| Michigan Forest Finance Authority           | \$ 6,000,000                         | \$                               |
| Michigan Film Office                        | 2,000,000                            |                                  |
| Agriculture Development Fund                | 5,000,000                            | 290,878                          |
| <u>Nonprofit Companies</u>                  |                                      |                                  |
| Good Manufacturing Facility                 | 3,000,000                            | 1,000,000                        |
| Automotive Technology Business Accelerator  | 6,000,000                            | 2,000,000                        |
| <u>For-Profit Companies</u>                 |                                      |                                  |
| Michigan Promotion Program                  | 15,000,000                           | 8,358,512                        |
| Business Development and Business Marketing | 19,700,000                           | 16,559,756                       |
| <u>Michigan Strategic Fund (MSF)</u>        |                                      |                                  |
| Capital Access Program                      | 3,500,000                            | 1,230,830                        |
| Defense Contract Coordination Center        | 10,000,000                           | 814,622                          |
| Technology Transfer                         | 2,000,000                            |                                  |
| Administration                              | 15,760,000                           | 6,544,585                        |
|   | <u>\$ 87,960,000</u>                 | <u>\$ 36,799,183</u>             |
| Total                                       |                                      |                                  |

Michigan Forest Finance Authority

Funds are to be used for reforestation, forest protection, or timber stand improvement or to obtain and maintain certification of sustainable forestry standards.

Michigan Film Office

Funds are to be used to establish a program that will promote the filming of motion pictures in Michigan by marketing and promoting Michigan as a premier location for filming motion pictures, commercials, and documentaries and to assist in workforce development within the film industry by supporting on-the-job training of qualified crew members.

Agriculture Development Fund

Funds are to be used for making grants and loans to establish, retain, expand, attract, or develop value-added agricultural processing and related agricultural production operations in Michigan. (Value-added is defined as the enhancement or improvement of the overall value of an agricultural commodity or of an animal or plant product into a product of higher value. The enhancement or improvement can include marketing, agricultural processing, transforming, or packaging.)

Good Manufacturing Facility

Funds are to be used for the creation of a manufacturing facility to be used for producing drugs for use in clinical trials, commercializing those drugs, and providing access to advanced technologies to university researchers, private research institutes, and biotech and pharmaceutical firms.

Automotive Technology Business Accelerator

Funds are to be used to provide for research, development, and commercialization of innovative technologies and products related to the automotive industry, to support international business development, and to support the outreach and growth of technology-based businesses and professionals.

Michigan Promotion Program

Funds are to be used to enhance funding beyond the annual appropriation for Travel Michigan to attract additional tourism expenditures in Michigan.

*This exhibit continued on next page.*

21st CENTURY JOBS TRUST FUND PROGRAMS  
Summary of Activity for Projects Specifically Appropriated  
As of June 30, 2007  
*Continued*

Business Development and Business Marketing

Funds are to be used to raise awareness and recognition of Michigan as a desirable business location nationally and in-State.

Capital Access Program

Funds are to be used to establish a program whose purpose is to create a mechanism that increases the availability of bank loans to small businesses by creating a reserve fund funded by charges on the borrower and the bank and matched by a contribution from MSF.

Defense Contract Coordination Center

Funds are to support the development and creation of a defense contracting center program to assist Michigan companies in securing more federal defense and homeland security procurement contracts. Act 317, P.A. 2006, established the Center within MSF. MSF has authorized payments in 2006 and 2007 to procurement technical assistance centers (P-TACs).

Technology Transfer

Funds are to be used to implement the transfer of competitive technology research from institutions of higher education to the private sector for commercialization.

Administration

Funds are to be used by MSF for the operation of the 21st Century Jobs Trust Fund.

Source: Act 225, P.A. 2005, and MSF accounting records.

**21st CENTURY JOBS TRUST FUND PROGRAMS**  
Time Line of Key Events for Awards, Contracts, and Disbursements  
Through June 30, 2007

| <b>Date</b>      | <b>21st Century Investments Program</b>  |
|------------------|--|
| January 24, 2007 | Michigan Strategic Fund (MSF) Board approves up to \$10.0 million investment in Nth Power Fund IV, LP.<br><br>MSF Board approves up to \$7.5 million investment in Arboretum Ventures II, LP.  |
| March 28, 2007   | MSF Board approves up to \$7.5 million investment in EDF Ventures IV, LP.<br>As of June 30, 2007, the limited partnership agreement was still pending.<br><br>MSF Board approves up to \$10.0 million investment in Venture Investors Early Stage Fund IV, LP. |
| April 4, 2007    | MSF Board made the first investment of \$0.4 million in Arboretum Ventures II, LP.   |
| April 12, 2007   | MSF Board made the first investment of \$1.5 million in Nth Power Fund IV, LP.   |
| June 5, 2007     | MSF Board approves up to \$10.0 million investment in Quad Partners II, LP.<br>As of June 30, 2007, the limited partnership agreement was still pending.   |
| June 27, 2007    | MSF Board approves up to \$10.0 million investment in Relativity Fund, LP.<br>As of June 30, 2007, the limited partnership agreement was still pending.  |

| <b>Date</b>     | <b>Life Sciences Pipeline Program</b>   |
|-----------------|---|
| July 21, 2006   | Contract for \$1,400,000 signed with Michigan Biosciences Industry Association (MichBio). |
| October 6, 2006 | First expenditure of \$323,775.   |
| June 30, 2007   | Fiscal year 2006-07 expenditures to date total \$529,725.                                 |

| <b>Date</b>                                     | <b>Competitive Edge Technology Grants and Loans</b>                      |
|---|--|
| September 6, 2006                               | SEIC Board approves \$101,246,277 to fund 61 proposals.                  |
| October 16, 2006                                | SEIC Board approves an additional \$35,861,872 to fund 24 proposals.     |
| October 1, 2006<br>through<br>December 31, 2006 | 37 contracts were signed.<br>18 payments totaling \$9,719,578 were made. |

*This exhibit continued on next page.*

**21st CENTURY JOBS TRUST FUND PROGRAMS**  
Time Line of Key Events for Awards, Contracts, and Disbursements  
**Through June 30, 2007**  
*Continued*

|  |   |
|--|---|
| January 1, 2007<br>through<br>March 31, 2007 | 38 contracts were signed.<br>65 payments totaling \$26,898,233 were made.   |
| April 1, 2007<br>through<br>June 30, 2007    | 3 contracts were signed (last one on June 4, 2007).<br>25 payments totaling \$14,826,894 were made.   |
| As of June 30, 2007                          | 78 contracts signed to date.<br>\$51,444,705 expended to date.<br>55 awards received 1 payment.<br>16 awards received 2 payments.<br>3 awards received 3 payments.<br>1 award received 4 payments.<br>3 awards received 0 payments. |

| <b>Date</b>   | <b>Projects Specifically Appropriated</b>   |
|---------------|---|
| May 10, 2006  | Contracts signed for: <ul style="list-style-type: none"> <li>• \$16,000,000 with McCann-Erickson USA, Inc., for the Michigan Promotion Program.</li> <li>• \$19,500,000 with Duffey, Petrosky &amp; Company, L.L.C., for Business Development and Business Marketing.</li> </ul>                              |
| May 30, 2006  | First payments totaling: <ul style="list-style-type: none"> <li>• \$1,939,686 for Business Development and Business Marketing.</li> <li>• \$50,000 for Capital Access Program.</li> <li>• \$199,951 to procurement technical assistance centers (P-TACs) for Defense Contract Coordination Center.</li> </ul> |
| June 30, 2006 | First payments totaling \$259,973 for Michigan Promotion Program.   |

*This exhibit continued on next page.*

21st CENTURY JOBS TRUST FUND PROGRAMS  
Time Line of Key Events for Awards, Contracts, and Disbursements  
Through June 30, 2007  
*Continued*

|                    |   |
|--------------------|---|
| September 30, 2006 | Fiscal year 2005-06 expenditures total: <ul style="list-style-type: none"> <li>• \$76,444 for Agriculture Development Fund.</li> <li>• \$4,444,020 for Michigan Promotion Program.</li> <li>• \$9,662,764 for Business Development and Business Marketing.</li> <li>• \$330,830 for Capital Access Program.</li> <li>• \$489,437 for Defense Contract Coordination Center.</li> </ul>   |
| October 3, 2006    | Contract for \$6,000,000 signed with Automation Alley for the Automotive Technology Business Accelerator and \$2,000,000 expended.  |
| November 14, 2006  | Contract for \$3,000,000 signed with Van Andel Research Institute for the Good Manufacturing Facility.  |
| December 1, 2006   | Memorandum of understanding for \$2,000,000 signed with Department of History, Arts and Libraries for Michigan Film Office.   |
| December 6, 2006   | \$1,000,000 expended for the Good Manufacturing Facility (Van Andel Research Institute).  |
| March 30, 2007     | Two memorandums of understanding signed for \$5,000,000 each with Department of Agriculture and Department of Treasury for the Agriculture Development Fund.  |
| June 30, 2007      | Fiscal year 2006-07 expenditures total: <ul style="list-style-type: none"> <li>• \$214,433 Agriculture Development Fund.</li> <li>• \$1,000,000 for Good Manufacturing Facility.</li> <li>• \$2,000,000 for Automotive Technology Business Accelerator.</li> <li>• \$3,914,492 for Michigan Promotion Program.</li> <li>• \$6,896,992 for Business Development and Business Marketing.</li> <li>• \$900,000 for Capital Access Program.</li> <li>• \$325,185 for Defense Contract Coordination Center.</li> </ul> |

Source: MSF Board and SEIC Board meeting minutes, contracts, and accounting records.

# GLOSSARY

## Glossary of Acronyms and Terms

AAAS

American Association for the Advancement of Science.

advanced automotive,  
manufacturing, and  
materials technology

Any technology that involves one or more of the following:

- (1) Materials with engineered properties created through the development of specialized process and synthesis technology.
- (2) Nanotechnology, including materials, devices, or systems at the atomic, molecular, or macromolecular level, with a scale measured in nanometers.
- (3) Microelectromechanical systems, including devices or systems integrating microelectronics with mechanical parts and a scale measured in micrometers.
- (4) Improvements to vehicle safety, vehicle performance, vehicle production, or environmental impact, including, but not limited to, vehicle equipment and component parts.
- (5) A new technology, device, or system that enhances or improves the manufacturing process of wood, timber, or agricultural-based products.
- (6) Any technology that involves an alternative energy vehicle or its components, as defined in Section 207.822 of the *Michigan Compiled Laws*.
- (7) Advanced computing or electronic device technology related to advanced automotive, manufacturing, and materials technology.

- (8) Design, engineering, testing, or diagnostics related to advanced automotive, manufacturing, and materials technology.
- (9) Product research and development related to advanced automotive, manufacturing, and materials technology.

alternative energy  
technology

Applied research or commercialization of new or next generation technology in one or more of the following:

- (1) Alternative energy technology, as defined in Section 207.822 of the *Michigan Compiled Laws*.
- (2) Devices or systems designed and used solely for the purpose of generating energy from agricultural crops, residue and waste generated from the production and processing of agricultural products, animal wastes, or food processing wastes.
- (3) A new technology, product, or system that permits the utilization of biomass for the production of specialty, commodity, or foundational chemicals or of novel or economical commodity materials through the application of biotechnology that minimizes, complements, or replaces reliance on petroleum for the production. Alternative energy technology also includes a new technology, product, or system that utilizes wind energy.
- (4) Advanced computing or electronic device technology related to alternative energy technology.
- (5) Design, engineering, testing, or diagnostics related to alternative energy technology.
- (6) Product research and development related to alternative energy technology.

|  |   |
|--|---|
| applied research                         | Translational research conducted with the objective of attaining a specific benefit or to solve a practical problem or other research activity that seeks to utilize, synthesize, or apply existing knowledge, information, or resources to the resolution of a specified problem, question, or issue, with high potential for commercial application to create jobs in Michigan. |
| basic research                           | Any original investigation for the advancement of scientific or technological knowledge that will enhance the research capacity of Michigan in a way that increases the ability to attract to or develop companies, jobs, researchers, or students in Michigan.   |
| commercialization                        | The transition from research to the actions necessary to achieve market entry and general market competitiveness of new innovative technologies, processes, and products and the services that support, assist, equip, finance, or promote a person or an entity with that transition.  |
| competitive edge technology              | Technology that includes one or more of the following: (1) life sciences technology, (2) advanced automotive, manufacturing, and materials technology, (3) homeland security and defense technology, and (4) alternative energy technology.   |
| DLJ                                      | DLJ MB Advisor Inc.   |
| effectiveness                            | Program success in achieving mission and goals.   |
| homeland security and defense technology | Technology that assists in the assessment of threats or damage to the general population and critical infrastructure; protection of, defense against, or mitigation of the effects of foreign or domestic threats, disasters, or attacks; or support  |

for crisis or response management, including, but not limited to, one or more of the following:

- (1) Sensors, systems, processes, or equipment for communications, identification and authentication, screening, surveillance, tracking, and data analysis.
- (2) Advanced computing or electronic device technology related to homeland security and defense technology.
- (3) Aviation technology, including, but not limited to, avionics, airframe design, sensors, early warning systems, and services related to homeland security and defense technology.
- (4) Design, engineering, testing, or diagnostics related to homeland security and defense technology.
- (5) Product research and development related to homeland security and defense technology.

life sciences  
technology

Any technology derived from life sciences intended to improve human health or the overall quality of human life, including, but not limited to, systems, processes, or equipment for drug or gene therapies, biosensors, testing, medical devices or instrumentation with a therapeutic or diagnostic value, a pharmaceutical or other product that requires U.S. Food and Drug Administration approval or registration prior to its introduction in the marketplace and is a drug or medical device as defined by the federal Food, Drug, and Cosmetic Act or one or more of the following:

- (1) Advanced computing or electronic device technology related to life sciences technology.

- (2) Design, engineering, testing, or diagnostics related to life sciences technology or the commercial manufacturing of life sciences technology.
- (3) Product research and development related to life sciences technology.

|                                    |   |
|------------------------------------|---|
| mezzanine fund                     | A type of investment fund that is primarily engaged in a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. It is generally used as an intermediate stage financing, preceding a company's initial public offering, and is considered less risky than start-up financing. |
| MichBio                            | Michigan Biosciences Industry Association.  |
| MSF                                | Michigan Strategic Fund.  |
| performance audit                  | An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.    |
| private equity fund                | A type of investment fund that buys majority interest in companies to restructure its capital, management, and organization. Usually, the companies are privately held for two to five years.   |
| projects specifically appropriated | Projects appropriated in Sections 88j(3) - 88j(5), Act 225, P.A. 2005.  |

|                                |   |
|--------------------------------|---|
| reportable condition           | A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.   |
| SEIC Board                     | Strategic Economic Investment and Commercialization Board.  |
| university technology transfer | Innovative methods to accelerate the creation of start-up companies affiliated with institutions of higher education or the transfer of competitive edge technology research from an institution of higher education to a qualified business in Michigan. |
| venture capital fund           | A type of investment fund that invests in high-risk companies or small companies specializing in new technologies, often in return for an equity position in the firm.  |





