MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

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

October 1, 2006 through September 30, 2008

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

271-0405-09

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

Including the Provisions of the Single Audit Act

Michigan Economic Development Corporation

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

October 1, 2006 through September 30, 2008

Report Number:
271-0405-09

Released:
June 2009

A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Economic Development Corporation's (MEDC's) financial statements.

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Internal Control Over Financial Reporting

We identified a significant deficiency in internal control over financial reporting (Finding 1). We do not consider the significant deficiency to be a material weakness.

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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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Federal Awards:

Auditor's Reports Issued on Compliance

We audited one program as a major program and issued an unqualified opinion. MEDC expended a total of $2.7 million in federal awards during the two-year period ended September 30, 2008. The federal program audited as a major program is identified on the back of this summary.

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Internal Control Over Major Programs

We did not report any findings related to internal control over federal program compliance.

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Required Reporting of Noncompliance

We did not identify any instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

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We audited the following program as a major program:

CFDA Number	*Program Title*	*Compliance Opinion*
11.611	Manufacturing Extension Partnership	Unqualified

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

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

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

June 15, 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, including the provisions of the Single Audit Act, of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, for the period October 1, 2006 through September 30, 2008.

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 and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, the report contains MEDC's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our finding and recommendation are contained in Section II of the schedule of findings and questioned costs. The agency preliminary response is contained in the corrective action plan.

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

AUDITOR GENERAL

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GLOSSARY

INDEPENDENT AUDITOR'S REPORT

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 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 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, 2008 and September 30, 2007, 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, 2008 and September 30, 2007 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, 2008 and September 30, 2007 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 May 28, 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, 2007 and September 30, 2006 was not presented because this information was presented with the Michigan Economic Development Corporation's prior year audited financial statements.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the Michigan Economic Development Corporation's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

May 28, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Economic Development Corporation (MEDC) management has prepared this discussion and analysis of the financial performance of MEDC for the period October 1, 2007 through September 30, 2008. 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, supplemental financial schedule, 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 a supplemental financial schedule. 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 that resulted in MEDC recognizing $26.9 million in tribal gaming revenue from the Michigan Strategic Fund (MSF) during fiscal year 2006-07 from two tribes. These two tribes had discontinued payments to MSF in fiscal year 2003-04. The tribes contended that the Club Keno game, introduced by the Bureau of State Lottery, violated the terms of the 1998 compact agreement with the State. 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 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. Under the new compact:

- The Michigan Lottery and other similar activities by the State will not be treated as new commercial gaming unless they involve large scale use of electronic games.

- Tribes will no longer have exclusive gaming rights Statewide but will be limited to a regional market as defined in each compact.

In addition, a new casino (Four Winds Casino: Pokagon - New Buffalo) made a payment of $18.6 million under the amended compact for fiscal year 2007-08.

Analysis of Financial Activities

The assets of MEDC exceeded its liabilities by $130.5 million at September 30, 2008 and by $108.4 million at September 30, 2007. As of September 30, 2008, $27.5 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

	2008	2007
Current assets	$ 102,810,974	$ 79,285,856
Noncurrent assets		
Loans receivable	22,416,200	25,424,785
Investments	4,920,730	4,081,765
Capital assets (net)	10,420,751	10,639,280
Interest receivable	221,385	
Total assets	$ 140,790,040	$ 119,431,686
Current liabilities	$ 9,085,400	$ 9,724,255
Long-term liabilities	1,194,948	1,285,264
Total liabilities	$ 10,280,348	$ 11,009,520
Net assets		
Invested in capital assets	$ 10,420,751	$ 10,639,280
Unrestricted net assets	120,088,941	97,782,887
Total net assets	$ 130,509,692	$ 108,422,166

Current assets primarily consist of amounts in the State of Michigan's equity in common cash, cash and cash equivalents, short-term investments, short-term loans receivable, amounts due from MSF, and receivables for gaming revenues. Interest earned on funds retained in the common cash pool is the income of the State and is not transferred to MEDC.

Current assets increased by $23.5 million in fiscal year 2007-08 primarily because of $18.6 million of tribal gaming revenues paid from a new casino.

Loans receivable include the long-term portion of the outstanding loans, net of loan loss provisions. Long-term loans receivable decreased by $3.0 million in fiscal year 2007-08 primarily due to recording a loan loss provision of $1.2 million and conversion of $1.3 million of loans to investments for the Technology Tri-Corridor program.

Capital assets (net) at September 30, 2008 included the cost of the MEDC headquarters building, furniture, and information technology equipment, net of depreciation. During fiscal year 2007-08, capital assets worth $0.3 million were added.

Long-term liabilities consisted of $1.2 million in long-term compensated absences, which decreased by $0.1 million in fiscal year 2007-08.

Overall, **net assets** increased by $22.1 million during fiscal year 2007-08 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

	2008	2007
Operating revenues		
Operating grants and contributions	$ 69,844,288	$ 62,306,723
Interest and investment earnings	1,505,172	2,176,942
Other operating revenues	7,655,450	7,700,377
Total operating revenues	$ 79,004,910	$ 72,184,043
Operating expenses		
Salaries, wages, and other administrative expenses	$ 35,092,416	$ 31,249,349
Payment to MSF	27,275	183,359
Operating grants	21,797,693	19,932,652
Total operating expenses	$ 56,917,384	$ 51,365,360
Operating income (loss)	$ 22,087,526	$ 20,818,683
Change in net assets	$ 22,087,526	$ 20,818,683
Total net assets - Beginning	108,422,166	87,603,484
Total net assets - Ending	$ 130,509,692	$ 108,422,166

Operating grants and contributions included $2.9 million for two federal grants, $32.7 million received from State funding for the economic development programs, and $34.3 million in tribal gaming revenue and miscellaneous fees transferred from MSF. In fiscal year 2007-08, operating grants and contributions increased by $7.5 million primarily because of increased State funding and tribal gaming revenues transferred from MSF.

Interest and investment earnings for fiscal year 2007-08 decreased by $0.7 million primarily because of losses in the market conditions.

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 of $4.5 million and tribal gaming revenues of $2.6 million received directly by MEDC. 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 2007-08 increased by $3.8 million primarily because of the recognition of expenditures for provision of doubtful debts, increased staff cost, increased retirement costs charged by the State, and increased cost of consulting services.

Operating grants for fiscal year 2007-08 included grants for the Economic Development Job Training Program and Michigan Manufacturing Technical Institute, pass-through federal grants for 21st Century Workforce Regional grants, and marketing program expenses. Operating grants increased by $1.9 million primarily because of increases in disbursement requests for Economic Development Job Training Program grants.

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

	2008	2007
Cash provided (used) by:		
Operating activities	$ 23,937,464	$ (7,862,724)
Capital and related financing activities	(340,900)	(153,478)
Investing activities	385,414	23,021,268
Net increase (decrease) in cash	$ 23,981,978	$ 15,005,066
Cash and cash equivalents at beginning of year	45,891,942	30,886,876
Cash and cash equivalents at end of year	$ 69,873,920	$ 45,891,942

Cash and cash equivalents at the end of fiscal year 2007-08 ($69.9 million) primarily included $27.5 million equity in the State of Michigan common cash and $41.7 million of investments in instruments with maturity dates of less than 12 months.

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BASIC FINANCIAL STATEMENTS

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

	2008	2007
ASSETS		
Current assets:		
Cash (Note 2)	$ 690,543	$ 638,199
Equity in common cash (Note 2)	27,528,046	24,776,065
Money market fund (Note 2)	41,655,331	20,477,678
Tribal gaming receivable	2,126,085	2,022,190
Amounts due from MSF	27,725,996	26,880,000
Amounts due from federal agencies	68,504	518,422
Loans receivable (Note 3)	2,200,003	2,541,822
Investments (Note 2)		700,217
Other current assets:		
Interest receivable	91,206	72,031
Miscellaneous	725,260	659,232
Total current assets	$ 102,810,974	$ 79,285,856
Noncurrent assets:		
Loans receivable (Note 3)	$ 22,416,200	$ 25,424,785
Investments (Note 2)	4,920,730	4,081,765
Capital assets (net) (Note 4)	10,420,751	10,639,280
Interest receivable	221,385	
Total noncurrent assets	$ 37,979,066	$ 40,145,830
Total assets	$ 140,790,040	$ 119,431,686
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	$ 7,474,029	$ 8,356,632
Compensated absences (Note 5)	1,371,956	1,279,003
Amounts due to primary government	174,790	88,621
Amounts due to MSF	26,572	
Deferred revenues	38,052	
Total current liabilities	$ 9,085,400	$ 9,724,255
Long-term liabilities:		
Compensated absences (Note 5)	$ 1,194,948	$ 1,283,906
Other long-term liabilities		1,358
Total long-term liabilities	$ 1,194,948	$ 1,285,264
Total liabilities	$ 10,280,348	$ 11,009,520
NET ASSETS		
Invested in capital assets	$ 10,420,751	$ 10,639,280
Unrestricted net assets	120,088,941	97,782,887
Total net assets	$ 130,509,692	$ 108,422,166

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

	2008	2007
OPERATING REVENUES (Note 1)		
Operating grants and contributions		
Federal revenue	$ 2,886,195	$ 4,414,750
Payments from MSF - State appropriations (Note 7)	32,653,312	28,993,355
Payments from MSF - Tribal gaming and fees (Note 7)	34,304,781	28,898,619
Total operating grants and contributions	$ 69,844,288	$ 62,306,723
Interest and investment earnings		
Investment earnings	$ 1,158,476	$ 929,462
Net increase (decrease) in fair value of investments	(393,752)	692,784
Interest income on loans	740,449	554,697
Total interest and investment earnings	$ 1,505,172	$ 2,176,942
Other operating revenues		
Tribal gaming	$ 2,623,023	$ 2,697,509
Other operating revenues	5,032,427	5,002,868
Total other operating revenues	$ 7,655,450	$ 7,700,377
Total operating revenues	$ 79,004,910	$ 72,184,043
OPERATING EXPENSES (Note 1)		
Salaries, wages, and other administrative expenses	$ 35,092,416	$ 31,249,349
Payment to MSF	27,275	183,359
Operating grants	21,797,693	19,932,652
Total operating expenses	$ 56,917,384	$ 51,365,360
Operating income (loss)	$ 22,087,526	$ 20,818,683
Change in net assets	$ 22,087,526	$ 20,818,683
Total net assets - Beginning	108,422,166	87,603,484
Total net assets - Ending	$ 130,509,692	$ 108,422,166

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to employees	$ (20,567,852)	$ (19,739,217)
Payments to suppliers	(13,849,756)	(11,248,736)
Tribal gaming	2,519,127	2,106,842
Other operating revenues	5,706,848	6,075,522
Grants received from federal government	3,336,113	4,506,746
Operating grants	(19,291,839)	(20,546,657)
Payment to MSF	(27,275)	(183,359)
Payments from MSF	66,112,097	31,166,135
Net cash provided (used) by operating activities	$ 23,937,464	$ (7,862,724)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets (Note 4)	$ (340,900)	$ (153,478)
Net cash provided (used) by capital and related financing activities	$ (340,900)	$ (153,478)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investment securities	$ (532,500)	$ 21,741,392
Interest and dividends on investments	917,914	1,279,877
Net cash provided (used) by investing activities	$ 385,414	$ 23,021,268
Net cash provided (used) - All activities	$ 23,981,978	$ 15,005,066
Cash and cash equivalents at beginning of year	45,891,942	30,886,876
Cash and cash equivalents at end of year	$ 69,873,920	$ 45,891,942
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$ 690,543	$ 638,199
Equity in common cash	27,528,046	24,776,065
Money market fund	41,655,331	20,477,678
Cash and cash equivalents at end of year	$ 69,873,920	$ 45,891,942
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 22,087,526	$ 20,818,683
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest (nonprogram) and investment income	(917,914)	(1,279,877)
Depreciation	559,429	533,261
Net increase (decrease) in fair value of investments	393,752	(692,784)
Changes in assets and liabilities:		
Amounts due from MSF and tribal gaming receivable	(949,891)	(27,316,505)
Loans receivable (program loans)	3,350,405	1,321,638
Amounts due from federal agencies	449,918	91,996
Other assets	(306,589)	868,372
Accounts payable and other liabilities	(729,171)	(2,207,508)
Net cash provided (used) by operating activities	$ 23,937,464	$ (7,862,724)
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loans converted to investments	$ 1,334,969	$
Increase/(decrease) in fair value of investments	(371,190)	(893,892)
Net noncash provided (used) by investing, capital, and financing activities	$ 963,779	$ (893,892)

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, 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, and equities at fair value and venture capital investments using cost-based measures.

(4) Loans Receivable: Loans receivable 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 IDRB, Michigan Economic Growth Authority, and Brownfield fees collected by MSF and transferred to MEDC 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	
	2008	2007
Equity in common cash	$27,528,046	$ 24,776,065
Checking	60,543	408,553
Money market account	630,000	229,646
Total deposits	$28,218,589	$ 25,414,264

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 $1,052,741 at September 30, 2008 ($521,681 at September 30, 2007). Of that amount, $883,350 ($377,938 at September 30, 2007) was uninsured and uncollateralized at September 30, 2008. 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, 2008 and September 30, 2007, 99.9% and 99.8%, 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 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 because fair value is not readily determinable.

MEDC makes grant 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. Therefore, the proceeds from sales and maturities of all investments are shown as a net balance on the statement of cash flows.

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

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

The following table shows the fair value of investments at September 30, 2007 by investment type and in total:

Investment Type	Fair Value	Investment Maturities Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Money market fund	$20,477,678	$20,477,678	$	$	$
Government securities	911,149	700,217			210,932
Equities	720,666		720,666		
Venture capital - Limited partner	3,150,167			3,150,167	
Total investments	$25,259,661	$21,177,895	$720,666	$3,150,167	$ 210,932

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, 2008, investments in money market fund and government securities with a market value of $41.7 million were exposed to interest rate risk. As of September 30, 2007, investments in money market fund and government securities with a market value of $21.4 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, 2008, investments in government securities and equities with a market value of $0.4 million were exposed to custodial credit risk. As of September 30, 2007, investments in government securities and equities with a market value of $1.6 million were exposed to custodial credit risk. These securities were uninsured, not registered in MEDC's name, and held by the counterparty. 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 LaSalle Bank's trust department 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 2007-08 and 2006-07. 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, 2008:

		Credit Quality Rating	
Investment Type	Fair Value	Standard & Poor's	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		

The following table shows the credit quality ratings of investments in debt securities as of September 30, 2007:

		Credit Quality Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's Investors Service
Government securities - U.S. agencies	$ 911,149	AAA	Aaa
Money market fund	20,477,678	AAA	Aaa
Total investments	$21,388,827		

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, 2008 and September 30, 2007, 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, 2008, MEDC had no investments for more than 5% of MEDC's total investments with a single issuer.

At September 30, 2007, 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	7.92%

Note 3 Loans Receivable

Loans receivable consisted of the following:

	As of September 30	
	2008	2007
Urban Land Assembly Fund loans	$ 4,322,696	$ 4,961,039
Seed capital loan	3,400,000	3,400,000
BIDCO loans	1,737,000	1,951,252
Life Sciences Program	4,562,159	5,470,199
Michigan Core Community Fund Program	12,424,269	12,647,173
Other loans	8,725,361	8,936,944
Total	$ 35,171,485	$ 37,366,607
Less: Allowance for uncollectible loans	(10,555,282)	(9,400,000)
Total loans receivable	$ 24,616,203	$ 27,966,607

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.

MEDC provided additional allowances for losses within the Technology Tri-Corridor program during the fiscal year ended September 30, 2008 for loans receivable that may be uncollectible in future years. Allowances for loan losses are reduced for the amounts recovered, BIDCO credits, and write-offs for the nonperforming loans. These loans generally provide for no principal or interest payments during the term of the loans. Some of these loans are expected to be converted to grants at the end of their term provided that certain conditions are met by the borrowers. The conditions generally require the borrowers to continue to conduct their principal business activities in the State of Michigan and submit specified reports to MEDC.

Note 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, 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

Capital asset activities for the fiscal year ended September 30, 2007 were as follows:

Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Building and improvement	$ 13,086,970	$	$	$13,086,970
Furniture	2,565,941	60,443		2,626,384
Non-EDP equipment	78,265			78,265
EDP equipment	852,890	93,035		945,925
Capital assets (cost)	$ 16,584,067	$ 153,478	$ 0	$16,737,545
Less accumulated depreciation for:				
Building and improvement	$ (2,208,158)	$ (436,608)	$	$ (2,644,766)
Furniture	(2,481,464)	(48,335)		(2,529,799)
Non-EDP equipment	(78,265)			(78,265)
EDP equipment	(797,117)	(48,318)		(845,435)
Total accumulated depreciation	$ (5,565,004)	$ (533,261)	$ 0	$ (6,098,265)
Capital assets (net)	$ 11,019,063	$ (379,783)	$ 0	$10,639,280

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, 2008 and September 30, 2007, respectively:

	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

	Fiscal Year 2006-07				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$2,722,354	$1,076,712	$1,236,157	$2,562,909	$1,279,003

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 26.5% ($2,255,888) and 21.0% ($1,773,682) of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2007-08 and 2006-07, 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 $243,255 and $190,186 for fiscal years 2007-08 and 2006-07, 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 of 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, 2008 and September 30, 2007, MEDC made contributions to the plan of $267,047 and $223,729, 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, 2008 and September 30, 2007, MEDC employees contributed $220,649 and $200,047, respectively, to the plan.

Note 7 Revenues From MSF

Revenues from MSF consisted of the following:

	Fiscal Year	
	2007-08	2006-07
Tribal gaming and fees	$ 34,304,781	$ 28,898,619
State's General Fund programs	32,587,445	28,886,831
Other State restricted programs	65,867	106,524
Total revenues from MSF	$66,958,093	$57,891,973

SUPPLEMENTAL FINANCIAL SCHEDULE

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2006 Through September 30, 2008

Federal Agency/Program	*CFDA* (2) Number	Distributed to Subrecipients for the Fiscal Year Ended September 30 2007	Distributed to Subrecipients for the Fiscal Year Ended September 30 2008	Total Distributed for the Two-Year Period
U.S. Department of Commerce				
Direct Program:				
Manufacturing Extension Partnership (3)	11.611	$ 2,131,217	$ 564,574	$ 2,695,791
Total U.S. Department of Commerce		**$ 2,131,217**	**$ 564,574**	**$ 2,695,791**
Total Expenditures of Federal Awards		$ 2,131,217	$ 564,574	$ 2,695,791

(1) Basis of Presentation: This schedule presents the federal grant activity of the Michigan Economic Development Corporation on the full accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

(3) As of December 2007, funding for *CFDA* 11.611 will be provided directly to the Michigan Manufacturing Technology Center from the U.S. Department of Commerce.

(4) MEDC also received Workforce Investment Act federal revenue of $2,283,534 and $2,321,621 for fiscal years 2006-07 and 2007-08, respectively, from the Michigan Department of Energy, Labor & Economic Growth (DELEG). MEDC passed the federal funds through to DELEG's subrecipients; therefore, the amounts reported on this schedule do not agree with the amounts reported as federal revenue in the statement of revenues, expenses, and changes in fund net assets.

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INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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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 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, 2008 and September 30, 2007, as identified in the table of contents, and have issued our report thereon dated May 28, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We consider the deficiency described in Finding 1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the third paragraph of this section is not a material weakness.

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*.

The Michigan Economic Development Corporation's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not audit the Michigan Economic Development Corporation's response and, accordingly, we express no opinion on it.

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, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

May 28, 2009

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

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:

<u>Compliance</u>

We have audited the compliance of the Michigan Economic Development Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2008. The Michigan Economic Development Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Michigan Economic Development Corporation's management. Our responsibility is to express an opinion on the Michigan Economic Development Corporation's compliance based on our audit.

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

In our opinion, the Michigan Economic Development Corporation complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to its major federal program for the two-year period ended September 30, 2008.

Internal Control Over Compliance

The management of the Michigan Economic Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Michigan Economic Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Michigan Economic Development Corporation's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph 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 compliance that we consider to be material weaknesses, as defined in the preceding paragraph.

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, the Legislature, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

May 28, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Significant deficiencies* identified that are not considered to be material weaknesses?	Yes
Noncompliance or other matters material to the financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses* identified?	No
Significant deficiencies* identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program
11.611	Manufacturing Extension Partnership

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as a low-risk auditee*?	No

* *See glossary at end of report for definition.*

Section II: Findings Related to the Financial Statements

FINDING (2710901)

1. Payroll Controls

   The Michigan Economic Development Corporation's (MEDC's) internal control did not ensure that supervisors approved employee time sheets. Lack of appropriate approval could result in unauthorized payroll expenditures.

   Management is responsible for developing and maintaining a system of controls to ensure proper authorization and recordkeeping procedures to control expenditures. MEDC processed $16 million in payroll expenditures in fiscal year 2007-08.

   We reviewed a sample of 30 time sheets on the Data Collection and Distribution System* (DCDS) and noted that 12 (40%) of the time sheets were not approved by a supervisor. Supervisory approval provides assurance that employees' time is accurate and sick and annual leave used is appropriate and authorized.

RECOMMENDATION

We recommend that MEDC ensure that supervisors approve employee time sheets.

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

We did not report any findings related to federal awards.

* *See glossary at end of report for definition.*

OTHER SCHEDULES

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Summary Schedule of Prior Audit Findings
As of May 28, 2009

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements in the prior Single Audit*.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

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

* *See glossary at end of report for definition.*

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Corrective Action Plan
As of June 5, 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number:	2710901
Finding Title:	Payroll Controls
Management Views:	The Michigan Economic Development Corporation (MEDC) agrees with the recommendation. MEDC understands the importance of supervisory approval of employee time sheets. MEDC does have procedures to monitor payroll expenditures independent of time sheet approval and thereby prevent unauthorized expenditures.
Planned Corrective Action:	MEDC has instituted training and a policy requiring all managers to approve time in the Data Collection and Distribution System (DCDS) on a biweekly basis.
Anticipated Completion Date:	April 2009
Responsible Individual:	Minesh Mody

FINDINGS RELATED TO FEDERAL AWARDS

There were no findings related to federal awards for the two-year period ended September 30, 2008.

GLOSSARY

BIDCO	business and industrial development corporation.
CFDA	*Catalog of Federal Domestic Assistance.*
control deficiency in internal control over federal program compliance	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 on a timely basis noncompliance with a type of compliance requirement of a federal program.
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.
Data Collection and Distribution System (DCDS)	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for the Michigan Administrative Information Network (MAIN) Human Resource System (HRS).
DELEG	Department of Energy, Labor & Economic Growth.
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.
IDRB	industrial development revenue bond.

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.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material noncompliance	Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.
material weakness in internal control over federal program compliance	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.
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.
MEDC	Michigan Economic Development Corporation.

MSF	Michigan Strategic Fund.
OMB	U.S. Office of Management and Budget.
questioned cost	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
significant deficiency in internal control over federal program compliance	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.
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.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards

generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

subrecipient — A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

unqualified opinion — An auditor's opinion in which the auditor states that:

a. 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; or

b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL