



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT

FINANCIAL AUDIT  
OF THE

MICHIGAN STRATEGIC FUND

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

Fiscal Year Ended September 30, 2013



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:  
<http://audgen.michigan.gov>



# Michigan

## Office of the Auditor General

### REPORT SUMMARY

#### Financial Audit

#### Michigan Strategic Fund

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

Fiscal Year Ended September 30, 2013

Report Number:  
271-0401-14

Released:  
February 2014

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

#### **Financial Statements:**

##### **Auditor's Report Issued**

We issued unmodified opinions on MSF's basic financial statements.

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#### **Internal Control Over Financial Reporting and on Compliance and Other Matters**

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of MSF'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.

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#### **Background:**

Act 270, P.A. 1984, created MSF. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency, governed by a Board of Directors. Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency to the Department of Energy, Labor & Economic Growth (DELEG). Effective November 21, 2005, Act 225, P.A. 2005, transferred MSF as an autonomous agency from DELEG to the Department of Treasury. MSF is a discretely presented component unit of the financial reporting entity of the State of Michigan.

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



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

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

**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

February 19, 2014

Mr. Michael A. Finney  
President and Chief Executive Officer, Michigan Strategic Fund  
Chair, Michigan Strategic Fund Board of Directors  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Finney:

This is our report on the financial audit of the Michigan Strategic Fund (MSF), a discretely presented component unit of the State of Michigan, for the fiscal year ended September 30, 2013.

This report contains our report summary, our independent auditor's report on the financial statements and other reporting required by *Government Auditing Standards*, the MSF management's discussion and analysis, the MSF basic financial statements and required supplementary information, and a glossary of abbreviations and terms.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish".

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



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# 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  
and Other Reporting Required by *Government Auditing Standards*

Mr. Michael A. Finney  
President and Chief Executive Officer, Michigan Strategic Fund  
Chair, Michigan Strategic Fund Board of Directors  
300 North Washington Square  
Lansing, Michigan

Dear Mr. Finney:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Michigan Strategic Fund, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Michigan Strategic Fund's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Michigan Strategic Fund as of September 30, 2013 and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Strategic Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its other component units as of September 30, 2013, the changes in financial position, or, where applicable, cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, beginning fund balance was restated to correct a prior period error. Our opinion is not modified with respect to this matter.

**Other Matter**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17 and the budgetary comparison schedule and budget-to-GAAP reconciliation and corresponding notes on pages 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Michigan Strategic Fund'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Strategic Fund's internal control over financial reporting and compliance.

Sincerely,



Thomas H. McTavish, C.P.A.  
Auditor General  
February 3, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Michigan Strategic Fund (MSF) management has prepared this discussion and analysis of the financial performance of MSF for the period October 1, 2012 through September 30, 2013. Act 270, P.A. 1984, created MSF. Executive Order No. 1999-1, effective April 5, 1999, transferred MSF to the Department of Management and Budget as an autonomous agency, governed by a Board of Directors. Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency to the Department of Energy, Labor & Economic Growth (DELEG). Effective November 21, 2005, Act 225, P.A. 2005, transferred MSF as an autonomous agency from DELEG to the Department of Treasury. Executive Order No. 2011-4, effective April 24, 2011, transferred the Bureau of Workforce Transformation and energy programs from DELEG and the Michigan Land Bank Fast Track Authority and the Michigan State Housing Development Authority from the Department of Treasury to MSF. Executive Order No. 2013-8, effective July 16, 2013, transferred the Michigan Land Bank Fast Track Authority from MSF to the Michigan State Housing Development Authority. However, in accordance with governmental accounting and financial reporting standards, the Michigan Land Bank Fast Track Authority and the Michigan State Housing Development Authority are not considered component units of MSF and continue to be reported as discretely presented component units of the State of Michigan.

MSF is a discretely presented component unit of the financial reporting entity of the State of Michigan. MSF's management is responsible for the basic financial statements, required supplementary information, and this discussion.

### **Using the Financial Report**

This financial report is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accounting standards require a statement of net position; a statement of activities; a fund balance sheet; and a statement of revenues, expenditures, and changes in fund balance. The financial statements are interrelated and represent the financial status of MSF.

This financial report includes the independent auditor's report, management's discussion and analysis, the basic financial statements, and required supplementary information.

## **Major Changes**

The Film Incentive Funding line-item appropriation increased from \$25 million in fiscal year 2011-12 to \$50 million in fiscal year 2012-13. This appropriation funds the Film Digital Media Production Assistance Program.

## **Analysis of Financial Activities**

The assets of MSF exceeded its liabilities by \$418.2 million at September 30, 2013 and by \$336.9 million at September 30, 2012. Total net position increased by \$81.3 million during fiscal year 2012-13.

### **Condensed Financial Information**

#### **Statement of Net Position**

As of September 30

	<u>2013</u>	<u>2012</u>
Cash and equity in common cash	\$217,346,913	\$ 148,911,251
Amounts due from federal government	42,513,382	53,006,651
Other current assets	61,843,392	58,431,786
Total current assets	<u>\$321,703,686</u>	<u>\$260,349,687</u>
Noncurrent assets	402,831,638	391,188,266
Total assets	<u>\$724,535,324</u>	<u>\$651,537,952</u>
Current liabilities	\$103,347,172	\$ 108,425,757
Long-term liabilities	202,986,662	206,243.390
Total liabilities	<u>\$306,333,834</u>	<u>\$314,669,147</u>
Net position:		
Restricted	\$387,961,031	\$336,807,338
Unrestricted	30,240,459	61,467
Total net position	<u>\$418,201,490</u>	<u>\$336,868,805</u>

**Cash and equity in common cash** increased significantly as a result of \$14.3 million in additional unspent cash from the federal State Small Business Credit Initiative (SSBCI) Program; \$30.1 million in additional appropriated amounts transferred from the General Fund for the Film Digital Media Production Assistance Program; a \$19.1 million increase

in the Jobs for Michigan Investment Fund due to loan interest, principal, and fee payments and increased tribal gaming revenues; and \$8.7 million of additional amounts received in the Jobs for Michigan Investment Fund from the 21st Century Jobs Trust Fund.

**Amounts due from federal government** primarily consist of receivables for federal pass-through funds for the Community Development Block Grant (CDBG) Program, Workforce Development Agency grants, and Michigan Energy Office grants to subrecipients. This line item decreased by a net amount of \$10.5 million during fiscal year 2012-13. These receivables vary from year to year as they are dependent on the project activity of the subrecipients.

**Other current assets** primarily consist of loans receivable, capital lease receivable, amounts due from local units, tribal gaming revenue receivables, collateral deposits, and participation loans. The total increase in other current assets was \$3.4 million.

**Noncurrent assets** include the Capital Access Program, capital lease receivable, loans receivable, interest receivable, investments, Michigan Energy Office Loan Loss Reserve, collateral deposits, and participation loans. The total increase in noncurrent assets was \$11.6 million.

Noncurrent collateral funding increased by \$14.6 million during fiscal year 2012-13 mainly due to increased program activities. Noncurrent loan participation funding increased by \$8.9 million during fiscal year 2012-13 mainly due to the creation of the Michigan Community Revitalization Loan Participation Program. During fiscal year 2012-13, the loan loss provision for doubtful loans was increased by \$6.0 million and \$4.5 million was written off for uncollectible loans. Overall, noncurrent loans receivable was reduced by \$11.3 million. The total amount of investments and loans receivable (net of loss provisions) included in the current and noncurrent assets categories is \$150.2 million.

Beginning in fiscal year 2012-13, all collateral deposits and all participation loans are reported as two separate lines on the financial statements. Previously, collateral deposits and participation loans were reported by type of program, which included the Michigan Supplier Diversification Fund Program and the Michigan Business Growth Fund (MBGF) Program.

**Current liabilities** primarily consist of accounts payable and other liabilities, amounts due to component units, and bond interest payable related to the limited obligation revenue bonds. Total current liabilities decreased by \$5.1 million during fiscal year 2012-13, primarily related to a decrease of \$9.1 million in Workforce Development Agency Fund payables due to a decrease in federal funding and the timing of payment requests, a decrease of \$4.5 million in CDBG Program payables due to the timing of payment requests, and an increase of \$5.5 million in deferred revenue due to an unearned grant repayment received during fiscal year 2012-13.

**Long-term liabilities** primarily consist of bonds payable for two buildings that MSF has acquired in the last four years and the reserves for the Capital Access Program.

**Restricted net position** represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation limiting how they can be used. Total restricted net position increased by \$51.2 million primarily related to an increase of \$27.9 million in the Jobs for Michigan Investment Fund, an increase of \$12.9 million in the MBGF collateral and participation loan programs' net position, and an increase of \$14.3 million in unspent cash from the federal SSBCI Program.

**Unrestricted net position** represents resources that are not included in restricted net position. Total unrestricted net position increased by \$30.2 million primarily related to the Film Digital Media Production Assistance Program encumbrances that are funded by the General Fund.

**Condensed Financial Information**  
**Statement of Activities**  
For the Fiscal Years Ended September 30

	2013	2012
<b>Expenses</b>		
Community Development Block Grants (CDBG)	\$ 18,261,019	\$ 34,054,171
Jobs for Michigan Investment Fund	81,002,591	85,380,959
Workforce Development Agency Fund	308,029,475	333,955,227
Michigan Energy Office	9,728,841	34,041,072
Payments to the Michigan Economic Development Corporation (MEDC)	74,706,595	60,190,118
Arts and Cultural Grants	5,851,827	2,257,293
Other	30,130,800	23,045,423
<b>Total program expenses</b>	<b>\$527,711,148</b>	<b>\$572,924,264</b>
 <b>Program revenues</b>		
Charges for services	\$ 4,393,397	\$ 4,211,930
Operating grants and contributions	346,087,389	414,798,907
<b>Total program revenues</b>	<b>\$350,480,786</b>	<b>\$419,010,837</b>
<b>Net program expenses</b>	<b>\$177,230,362</b>	<b>\$153,913,426</b>
 <b>General revenues</b>		
Payments from the State of Michigan	\$182,118,727	\$154,908,317
Other	76,444,319	80,968,029
<b>Total general revenues</b>	<b>\$258,563,047</b>	<b>\$235,876,346</b>
<b>Change in net position</b>	<b>\$ 81,332,685</b>	<b>\$ 81,962,919</b>
 <b>Net position - Beginning</b>	<b>336,868,805</b>	<b>254,905,886</b>
 <b>Net position - Ending</b>	<b>\$418,201,490</b>	<b>\$336,868,805</b>

**CDBG** expenses decreased by \$15.8 million in fiscal year 2012-13. CDBG is a federal pass-through grant program and grant awards are spent over several years. Reduction in program expense is a result of reduced awards during fiscal year 2012-13 due to a decline in federal funding.

**Workforce Development Agency Fund** and **Michigan Energy Office** expenses primarily consist of pass-through grants to local governmental units, private entities, and universities. Expenses decreased because of a reduction in federal funds due to the sequestration and due to American Recovery and Reinvestment Act of 2009 (ARRA) grants used for Michigan Energy Office programs in prior years ending in fiscal year 2012-13.

**Payments to MEDC** primarily consist of MSF State appropriations transferred to fund programs administered by MEDC and tribal gaming revenue. The total increase in payments to MEDC includes funding for a new program, known as the Community Ventures Program, to help structurally unemployed people in finding employment in select cities and an increase in tribal gaming revenue.

**Operating grants and contributions** primarily reflect the funds received from the federal government for the CDBG, SSBCI, Workforce Development Agency, and Michigan Energy Office programs. The decrease is because of a reduction in federal funds due to the sequestration and due to ARRA grants ending. The decrease is also because of a reduction in awards made from the CDBG Program. This decrease corresponds to the decreased federal program expenses.

**Payments from the State of Michigan** primarily consist of transfers of MSF appropriations from the State General Fund of \$80.9 million and reimbursements of MSF expenditures from the 21st Century Jobs Trust Fund of \$101.2 million. The revenue from the General Fund increased by \$18.2 million as a result of the authorized expansion of the Film Incentive and Arts and Cultural Grants programs and creation of the Community Ventures Program in fiscal year 2012-13. The revenue from the 21st Century Jobs Trust Fund for grants, loans, investments, and promotion programs increased by \$9.0 million as a result of increased appropriations for program expenditures.

**Other general revenues** primarily consist of tribal gaming revenue, investment income, and lease revenue related to capital lease agreements. This line item decreased by a net amount of \$4.5 million during fiscal year 2012-13.

### **Other Pertinent Information**

From fiscal year 1996-97 through fiscal year 2012-13, MSF disbursed \$40.5 million of CDBG federal funds for Industrial Park Loans/Grants to various local governmental entities. According to the agreement, local governmental entities would need to return the funds to MSF if they did not create a specific number of jobs. Any returned funds for projects that failed to meet a CDBG Program objective are treated as recaptured funds and, in accordance with federal regulation, are returned to the federal grantor to be placed in the State's letter of credit to be used for future grants. Also, loan payments from local governmental entities made according to the terms of the agreement for projects that did create jobs are treated as program income and allowed to be redistributed by MSF for allowable CDBG Program projects. As of September 30, 2013, local governmental entities had earned \$21.2 million and repaid \$16.9 million since inception. MSF may receive a return of \$2.3 million of federal funds from local governmental entities in future years.



## BASIC FINANCIAL STATEMENTS

**MICHIGAN STRATEGIC FUND**

Statement of Net Position

As of September 30, 2013

**ASSETS**

Current assets:

Cash (Note 2)	\$ 11,396,882
Equity in common cash (Note 2)	168,084,029
SSBCI checking account (Note 2)	35,886,921
Collateral deposit	1,979,080
Participation loan	3,846,464
Amounts due from federal government	42,513,382
Amounts due from local units	1,495,338
Loans receivable (Note 3)	15,270,949
Capital lease receivable (Note 4)	7,777,260
Interest receivable (Note 3)	1,622,402
Other current assets	31,830,979
Total current assets	<u>\$ 321,703,686</u>

Noncurrent assets:

Capital Access Program (Notes 2 and 8)	\$ 6,097,705
Collateral deposit	46,730,177
Participation loan	18,035,046
Capital lease receivable (Note 4)	189,438,021
Loans receivable (Note 3)	35,266,795
Interest receivable (Note 3)	31,187
Investments (Note 2)	99,682,708
Other noncurrent assets	7,550,000
Total noncurrent assets	<u>\$ 402,831,638</u>

Total assets

\$ 724,535,324

**LIABILITIES**

Current liabilities:

Accounts payable and other liabilities	\$ 67,032,648
Amounts due to component units	19,819,318
Capital Access Program (Note 8)	700,000
Compensated absences (Note 8)	969,176
Amounts due to primary government	357,264
Bond interest payable	4,590,122
Bonds payable (Note 6)	3,205,000
Deferred revenue	6,673,643
Total current liabilities	<u>\$ 103,347,172</u>

Long-term liabilities:

Bonds payable (Note 6)	\$ 196,301,684
Capital Access Program (Note 8)	5,397,705
Compensated absences (Note 8)	1,115,927
Amount due to primary government	121,347
Deferred revenue	50,000
Total long-term liabilities	<u>\$ 202,986,662</u>

Total liabilities

\$ 306,333,834

**NET POSITION**

Restricted for:

Debt service	\$ 1,228,387
Other purposes	386,732,644
Unrestricted	30,240,459
Total net position	<u>\$ 418,201,490</u>

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

**MICHIGAN STRATEGIC FUND**  
**Statement of Activities**  
For the Fiscal Year Ended September 30, 2013

**EXPENSES (Note 1)**

Community Development Block Grants	\$ 18,261,019
Arts and Cultural Grants	5,851,827
Michigan Energy Office	9,728,841
Jobs for Michigan Investment Fund	81,002,591
Workforce Development Agency Fund	308,029,475
Other programs	6,993,327
Payments to MEDC	74,706,595
Payments to General Fund (indirect and refund)	1,389,775
Other interest	9,615,115
Miscellaneous and receivable write-off	12,132,583
Total expenses	<u>\$ 527,711,148</u>

**PROGRAM REVENUES (Note 1)**

<u>Charges for services</u>	
Program fees	\$ 4,393,397
<u>Operating grants and contributions</u>	
Federal revenues	345,395,145
Revenues from local units	692,244
Total program revenues	<u>\$ 350,480,786</u>
Net expenses	<u>\$ 177,230,362</u>

**GENERAL REVENUES (Note 1)**

<u>Payments from the State of Michigan</u>	
Payments from General Fund	\$ 80,887,993
Payments from 21st Century Jobs Trust Fund	101,230,735
<u>Other</u>	
Interest and investment earnings	4,859,647
Net increase (decrease) in fair value of investments	(5,559,026)
Tribal gaming	64,368,273
Lease revenue	9,432,082
Payments from MEDC	149,341
Miscellaneous and payable write-off	3,194,003
Total general revenues	<u>\$ 258,563,047</u>
Change in net position	\$ 81,332,685
Net position - Beginning	<u>336,868,805</u>
Net position - Ending	<u>\$ 418,201,490</u>

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

**MICHIGAN STRATEGIC FUND**  
 Governmental Fund Balance Sheet  
As of September 30, 2013

	Major Funds				
	General Operations Fund	Workforce Development Agency Fund	Jobs for Michigan Investment Fund	Debt Service Fund	Total
<b>ASSETS</b>					
Current assets:					
Cash (Note 2)	\$ 3,286,970	\$ 112,279,439	\$ 8,109,913	\$ 11,396,882	
Equity in common cash (Note 2)	55,804,590			168,084,029	
SSBCI checking account (Note 2)	35,886,921			35,886,921	
Collateral deposit	801,618		1,177,462		1,979,080
Participation loan	2,515,952		1,330,512		3,846,464
Amounts due from Workforce Development Agency Fund			3,632,903		3,632,903
Amounts due from federal government	13,119,155	29,394,226		42,513,382	
Amounts due from local units		1,495,338		1,495,338	
Loans receivable (Note 3)	2,914,131		12,356,817		15,270,949
Interest receivable (Note 3)	330,975		1,291,427		1,622,402
Other current assets	17,185,674	1,711,305	12,934,000		31,830,979
Total current assets	<u>\$ 131,845,987</u>	<u>\$ 32,600,870</u>	<u>\$ 145,002,560</u>	<u>\$ 8,109,913</u>	<u>\$ 317,559,329</u>
Noncurrent assets:					
Capital Access Program (Notes 2 and 8)	\$ 6,097,705	\$ 15,796,592	\$ 6,097,705		
Collateral deposit	30,933,585			46,730,177	
Participation loan	9,313,816		8,721,229		18,035,046
Loans receivable (Note 3)	9,390,664		25,876,132		35,266,795
Interest receivable (Note 3)			31,187		31,187
Investments (Note 2)			99,682,708		99,682,708
Other noncurrent assets		50,000			7,550,000
Total noncurrent assets	<u>\$ 63,235,770</u>	<u>\$ 0</u>	<u>\$ 150,157,847</u>	<u>\$ 0</u>	<u>\$ 213,393,617</u>
Total assets	<u>\$ 195,081,757</u>	<u>\$ 32,600,870</u>	<u>\$ 295,160,407</u>	<u>\$ 8,109,913</u>	<u>\$ 530,952,946</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and other liabilities	\$ 14,524,699	\$ 28,549,350	\$ 23,958,599	\$ 67,032,648	
Amounts due to Jobs for Michigan Investment Fund		3,632,903		3,632,903	
Amounts due to component units	12,777,094	90,299	731,925		13,599,318
Capital Access Program (Note 8)	700,000				700,000
Amounts due to primary government	30,216	222,287	7,683		260,186
Deferred revenue	6,399,035	106,032	22,709,909		29,214,976
Total current liabilities	<u>\$ 34,431,044</u>	<u>\$ 32,600,870</u>	<u>\$ 47,408,116</u>	<u>\$ 0</u>	<u>\$ 114,440,031</u>
Long-term liabilities:					
Deferred revenue (Note 3)	\$ 5,397,705		\$ 3,278,597	\$ 3,278,597	
Capital Access Program (Note 8)	<u>\$ 5,397,705</u>	<u>\$ 0</u>	<u>\$ 3,278,597</u>	<u>\$ 0</u>	<u>\$ 8,676,302</u>
Total long-term liabilities					
Total liabilities	<u>\$ 39,828,749</u>	<u>\$ 32,600,870</u>	<u>\$ 50,686,714</u>	<u>\$ 0</u>	<u>\$ 123,116,333</u>
<b>FUND BALANCE (Notes 9 and 10)</b>					
Restricted fund balance	\$ 125,012,548	\$ 244,473,693	\$ 8,109,913	\$ 377,596,155	
Committed fund balance	10,851			10,851	
Assigned fund balance	30,144,794			30,144,794	
Unassigned fund balance	84,813			84,813	
Total fund balance	<u>\$ 155,253,007</u>	<u>\$ 0</u>	<u>\$ 244,473,693</u>	<u>\$ 8,109,913</u>	<u>\$ 407,836,614</u>
Total liabilities and fund balance	<u>\$ 195,081,757</u>	<u>\$ 32,600,870</u>	<u>\$ 295,160,407</u>	<u>\$ 8,109,913</u>	<u>\$ 530,952,946</u>

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

**MICHIGAN STRATEGIC FUND**  
 Reconciliation of the Governmental Fund Balance Sheet  
 to the Statement of Net Position  
As of September 30, 2013

Total fund balance	\$ 407,836,614
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Amounts reported for governmental activities in the statement of net position are different because:

<b>Capital lease receivable</b> is not available to pay for current period expenditures and, therefore, is not reported in the governmental fund statement.	197,215,281
<b>Compensated absences</b> are not due and payable in the current period and, therefore, are not reported in the governmental fund statement.	(2,085,103)
<b>Bonds payable and bond interest payable</b> are not due and payable in the current period and, therefore, are not reported in the governmental fund statement.	
Bonds payable	(199,506,684)
Bond interest payable	(4,590,122)
<b>Certain amounts due to primary government</b> are not due and payable in the current period and, therefore, are not reported in the governmental fund statement.	(218,425)
<b>Certain amounts due to component units</b> are not due and payable in the current period and, therefore, are not reported in the governmental fund statement.	(6,220,000)
<b>Certain deferred revenue</b> is not available for the current period and, therefore, is not recognized as revenue in the governmental fund statement. This includes:	
Tribal gaming revenue	19,154,000
Loan interest revenue	<u>6,615,930</u>
Net position of governmental activities	<u>\$ 418,201,490</u>

**MICHIGAN STRATEGIC FUND**  
 Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Year Ended September 30, 2013

	Major Funds				
	General Operations Fund	Workforce Development Agency Fund	Jobs for Michigan Investment Fund	Debt Service Fund	Total
<b>REVENUES (Note 1)</b>					
<u>Charges for services</u>					
Program fees	\$ 4,393,397	\$	\$	\$	\$ 4,393,397
<u>Operating grants and contributions</u>					
Federal revenues	55,891,558	289,503,587			345,395,145
Revenues from local units	692,244				692,244
<u>Payments from the State of Michigan</u>					
Payments from General Fund	62,164,143	18,723,850			80,887,993
Payments from 21st Century Jobs Trust Fund			101,230,735		101,230,735
<u>Other</u>					
Tribal gaming	44,284,579		15,284,729		59,569,308
Payments from MEDC	149,341				149,341
Interest and Investment earnings	1,625,077		2,757,709		4,382,787
Net increase (decrease) in fair value of investments			(5,559,026)		(5,559,026)
Lease revenue				13,129,626	13,129,626
Miscellaneous and payable write-off	1,561,850	947,092	219,431	400,666	3,129,039
Total revenues	<u>\$ 170,762,188</u>	<u>\$ 309,174,529</u>	<u>\$ 113,933,578</u>	<u>\$ 13,530,292</u>	<u>\$ 607,400,588</u>
<b>EXPENDITURES (Note 1)</b>					
Community Development Block Grants	\$ 18,261,019	\$	\$	\$	\$ 18,261,019
Arts and Cultural Grants	5,851,827				5,851,827
Michigan Energy Office	9,728,841				9,728,841
Jobs for Michigan Investment Fund			81,002,591		81,002,591
Workforce Development Agency Fund		308,029,475			308,029,475
Other programs	6,993,327				6,993,327
Payments to MEDC	74,101,630				74,101,630
Payments to General Fund (indirect and refund)	228,844	1,160,932			1,389,775
Other interest				10,080,438	10,080,438
Debt service principal redemption				2,695,000	2,695,000
Miscellaneous and receivable write-off	2,440,641		9,399,690	400,000	12,240,332
Total expenditures	<u>\$ 117,606,129</u>	<u>\$ 309,190,406</u>	<u>\$ 90,402,281</u>	<u>\$ 13,175,438</u>	<u>\$ 530,374,255</u>
Excess of revenues over/(under) expenditures	<u>\$ 53,156,059</u>	<u>\$ (15,877)</u>	<u>\$ 23,531,297</u>	<u>\$ 354,855</u>	<u>\$ 77,026,333</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from Jobs for Michigan Investment Fund	\$ 234,889	\$	\$	\$	\$ 234,889
Transfer to General Operations Fund			(234,889)		(234,889)
Other financing sources (uses)	<u>\$ 234,889</u>	<u>\$ 0</u>	<u>\$ (234,889)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net change in fund balances	\$ 53,390,948	\$ (15,877)	\$ 23,296,408	\$ 354,855	\$ 77,026,333
Fund balance - Beginning Restated (Note 10)	<u>101,862,059</u>	<u>15,877</u>	<u>221,177,286</u>	<u>7,755,058</u>	<u>330,810,280</u>
Fund balance - Ending	<u>\$ 155,253,007</u>	<u>\$ 0</u>	<u>\$ 244,473,693</u>	<u>\$ 8,109,913</u>	<u>\$ 407,836,614</u>

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

MICHIGAN STRATEGIC FUND

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities  
For the Fiscal Year Ended September 30, 2013

Net change in fund balance \$ 77,026,333

Amounts reported for governmental activities in the statement of activities are different because:

<b>Tribal gaming</b> revenue that was unavailable and, therefore, deferred at the governmental fund level was recognized in the statement of activities.	4,798,964
Certain <b>interest and investment earnings</b> are delayed and not available and, therefore, have been deferred at the governmental fund level but are recognized in the statement of activities.	476,860
<b>Lease revenue</b> is recorded as a resource in the governmental fund statement; however, this portion of the lease revenue is applied to the lease receivable in the statement of activities.	(3,697,544)
<b>Payments to MEDC</b> that were reported as expenditures in the governmental fund statement but were due and payable in the prior fiscal year are not reported in the statement of activities.	(604,964)
<b>Other interest</b> expense for bonds payable that is not due and payable in the current period is not recorded in the governmental fund statement.	465,323
<b>Debt service principal redemption</b> was due and payable in the current period and was reported as an expenditure in the governmental fund statement.	2,695,000
<b>Miscellaneous and payable write-off</b> were not recorded in the governmental fund statement for payables recorded in the statement of activities.	(64,964)
<b>Miscellaneous and receivable write-off</b> were not recorded in the governmental fund statement for receivables recorded in the statement of activities.	64,964
<b>Compensated absences</b> are not reported in the governmental fund statement because payments are not due and do not use current financial resources.	<u>172,713</u>
Change in net position of governmental activities	<u>\$ 81,332,685</u>

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

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

#### a. Reporting Entity

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

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

Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency from the Department of Management and Budget to the Department of Energy, Labor & Economic Growth (DELEG). Subsequently, Act 225, P.A. 2005, effective November 21, 2005, transferred MSF as an autonomous agency from DELEG to the Department of Treasury.

MSF is governed by an 11-member Board of Directors that consists of MEDC's chief executive officer, the State Treasurer, the director of the Department of Licensing and Regulatory Affairs, and 8 members who are appointed by the Governor with the advice and consent of the Senate.

MSF is a discretely presented component unit of the financial reporting entity of the State of Michigan because the primary government appoints a voting majority of the MSF Board of Directors and there is a financial burden/benefit relationship between MSF and the State.

Executive Order No. 2011-4, effective April 24, 2011, transferred the Michigan Land Bank Fast Track Authority and the Michigan State Housing Development Authority from the Department of Treasury to MSF. Executive Order No. 2013-8, effective July 16, 2013, transferred the Michigan Land Bank Fast Track Authority from MSF to the Michigan State Housing Development Authority. In accordance with governmental accounting and financial reporting standards, the Michigan Land Bank Fast Track Authority and the Michigan State Housing Development Authority are not considered component units of MSF and continue to be reported as discretely presented component units of the State of Michigan in the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR).

b. Financial Statement Presentation

MSF's financial statements include the entity-wide and governmental fund financial statements. The entity-wide financial statements include the statement of net position and the statement of activities and report on MSF as a whole. The statement of net position presents MSF's assets, liabilities, and net position. The difference between assets and liabilities represents MSF's net position. The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

MSF's governmental fund financial statements include MSF's General Operations Fund, Workforce Development Agency Fund (a special revenue fund), Jobs for Michigan Investment Fund (a special revenue fund), and Debt Service Fund. All of MSF's funds are considered major

funds\*. MSF's four funds are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The General Operations Fund accounts for all of the activities of MSF except those accounted for in the Workforce Development Agency Fund, the Jobs for Michigan Investment Fund, and the Debt Service Fund. The Workforce Development Agency Fund accounts for revenues and expenditures related to the workforce programs, including the State's workforce initiatives, adult education, the Veteran's Services Division, and programs related to migrant and seasonal workers. The Jobs for Michigan Investment Fund accounts for the investment, loan, and grant activity provided for in Act 225, P.A. 2005. The Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal and interest for limited obligation revenue bonds issued to acquire ownership in the Anderson House Office Building and the Cadillac Place building.

The accompanying financial statements present only MSF. Accordingly, they do not purport to, and do not, present fairly the financial position, the changes in financial position, or, where applicable, cash flows of the State of Michigan or its other component units in accordance with GAAP.

c. Measurement Focus and Basis of Accounting

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the 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.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within

\* See glossary at end of report for definition.

60 days. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

d. Financial Data

(1) MSF's General Operations Fund includes the following:

- (a) Revenues: Revenues include federal revenues for Community Development Block Grants (CDBGs) from the U.S. Department of Housing and Urban Development; State Small Business Credit Initiative (SSBCI) from the U.S. Department of Treasury; federal grants from the U.S. Department of Energy; State appropriations from the General Fund; tribal gaming; interest and investment earnings; fees from private activity bond\* (PAB) issuances; and fees from Michigan Economic Growth Authority (MEGA) and Brownfield program applications.
- (b) Expenditures: CDBG expenditures primarily consist of pass-through grants to local governmental units. Michigan Energy Office expenditures primarily consist of pass-through grants to local governmental units and private entities. Payments to MEDC include tribal gaming; fees from PABs, MEGA, and Brownfield; and funding from State appropriations for programs administered by MEDC. Expenditures also include administrative and other miscellaneous costs.
- (c) Other Financing Sources: Other financing sources include amounts transferred from the Jobs for Michigan Investment Fund to the General Operations Fund to fund the Michigan Film Office.

\* See glossary at end of report for definition.

- (2) MSF's Workforce Development Agency Fund primarily includes the following:
  - (a) Revenues: Revenues include federal grants from the U.S. Department of Agriculture, U.S. Department of Education, U.S. Department of Health and Human Services, and U.S. Department of Labor and State General Fund appropriations.
  - (b) Expenditures: Expenditures primarily consist of pass-through grants to local governmental units, private entities, and universities.
- (3) MSF's Jobs for Michigan Investment Fund primarily includes the following:
  - (a) Revenues: Revenues include payments from the 21st Century Jobs Trust Fund, tribal gaming, and interest and investment earnings from loans and investments.
  - (b) Expenditures: Expenditures primarily consist of grants to private entities, universities, and colleges and expenditures for travel promotion, business marketing, business incentive programs, and administration.
- (4) MSF's Debt Service Fund primarily includes lease revenue and interest earned on the lease payments deposited in the bank for the accumulation of resources for, and the payment of, principal and interest for limited obligation revenue bonds.

e. Fund Balance Classifications

- (1) Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. MSF's restricted fund balance

consists of the entire fund balance in the Jobs for Michigan Investment Fund, fund balance for funds created through enabling legislation, collateral deposits and participation loans of the Michigan Business Growth Fund (MBGF) programs, the unspent amount of the cash advance from the SSBCI program, the unspent cash reserve for cost of the bond issuance for the Cadillac Place, and the limited obligation revenue bond cash remaining in the Debt Service Fund at year-end (Note 9).

- (2) Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law. MSF's committed fund balance consists of the fund balance for grant application fees authorized to be collected through MSF's annual appropriations act.
- (3) Assigned fund balance includes amounts that are constrained by MSF's intent to be used for specific purposes, but are neither restricted nor committed. MSF's assigned fund balance consists of encumbrances funded by MSF appropriations that were not previously restricted or committed.
- (4) Unassigned fund balance is the residual classification for the General Operations Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Operations Fund.
- (5) MSF's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, and unassigned) resources are available.

## Note 2 Deposits and Investments

### a. Deposits

Deposits held by MSF at September 30, 2013 were as follows:

Equity in common cash	\$168,084,029
Deposits	47,283,804
Capital Access Program	6,097,705
Collateral deposit	48,709,256
Total deposits	<u>\$270,174,794</u>

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a bank failure, MSF'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 MSF's name.

Without recognition of outstanding checks or deposits in transit, MSF's bank statement shows a balance of \$102,433,720 at September 30, 2013. The majority of these balances are from the various bank accounts within the Capital Access Program, the Michigan Supplier Diversification Fund Program, and the SSBCI checking account. Of these amounts, \$94,066,957 as of September 30, 2013 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk. MSF has no policy for controlling custodial credit risk.

MSF'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 each financial institution's net worth. As of September 30, 2013, 100% 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 SOMCAFR.

b. Investments

MSF invests directly, or through investment funds, to strengthen and diversify Michigan's economy by providing financial assistance to businesses to create jobs or new businesses and industries. Act 225, P.A. 2005, authorized MSF to invest in venture capital\*, mezzanine\*, and private equity\* funds. The MSF Board of Directors approves new investments.

In 2006, MSF entered into a contract with DLJ MB Advisors, Inc. (DLJ), an affiliate of the Credit Suisse Group, to facilitate MSF's investments in new businesses and industries or new products and processes, which may have a higher risk than investments in established businesses or industries. The Michigan 21st Century Investment Fund, a limited partnership, was established for these investments. DLJ is the general partner, and MSF is a limited partner.

In addition, MSF has venture capital investments in Life Sciences, Advanced Manufacturing, Information Technology, Homeland Security, Agriculture, and Alternative Energy (transferred from MEDC by Act 225, P.A. 2005). These venture capital investments were previously approved by the Life Sciences and Technology Tri-Corridor steering committees in MEDC.

MSF reported investments at fair value if it was readily determinable or used cost-based measures if fair value was not readily determinable. The fair values were estimated by the partnerships, using the most recent reports and financial statements of the partnership investments:

Type of Investment	Fair Value (in millions) as of September 30, 2013
Venture capital - Limited partnerships	\$46.6
Venture capital - Stockholder	31.5
Mezzanine funds	13.7
Private equity	7.9
Total investments	\$99.7

\* See glossary at end of report for definition.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MSF's investments with a single issuer. MSF does not have a policy limiting the dollar value of investments with a single issuer. MSF had an investment in the following company for more than 5% of MSF's total investments at September 30, 2013:

Name of Issuer	Amount (in millions)	Percentage of Investments
ProNAi Therapeutics, Inc.	\$5.0	5.1%

Note 3 Net Loans and Interest Receivable

Loans receivable totaled \$38,232,949 at September 30, 2013 for the Jobs for Michigan Investment Fund. These are high-risk loans issued for the purpose of diversifying Michigan's economy and helping to create jobs in competitive edge technologies. The loans were issued to organizations that research or commercialize (transition from research to market) products, processes, or services in the competitive edge technologies. These loans may be converted to investments at MSF's option with MSF Board of Directors approval.

The loans are for varying lengths and interest rates. Interest and loan repayments may be initially delayed for several years to provide the borrower an opportunity to substantially complete the project. Interest receivable of \$1,322,614, consisting of \$1,291,427 in current interest receivable and \$31,187 in noncurrent interest receivable, was reported as revenue on the entity-wide financial statements but as deferred revenue on the governmental fund balance sheet because the revenue was not available.

Net loans receivable totaled \$12,304,795 at September 30, 2013 for the General Operations Fund. These are loans issued by the Michigan Energy Office to public or private entities with limited resources to gain access to capital for purchasing and installing energy conservation measures and manufacturing equipment and for retooling. The direct loans are for Energy Efficiency and Renewable Energy projects and are limited to those activities specifically listed as eligible activities in the federal State Energy Program regulation.

Net loans receivable held by MSF as of September 30, 2013 consisted of the following:

Loan Category	Loans Receivable
Technology Tri-Corridor	\$ 7,163,931
Life Sciences	2,839,277
Choose Michigan Fund	9,146,877
Competitive Edge Technology:	
Advanced Automotive, Manufacturing, and Materials Technology	9,615,336
Life Sciences Technology	29,522,699
Homeland Security and Defense Technology	9,642,681
Alternative Energy Technology	2,817,455
Capital Conduit Program	990,665
Business Attraction and Economic Gardening	4,000,000
Michigan Energy Office loans	13,446,713
Total	<u>\$ 89,185,634</u>
Less: Allowance for uncollectible loans	<u>(38,647,890)</u>
 Total loans receivable (net)	 <u>\$ 50,537,744</u>

Note 4 Capital Lease Receivable

As described in Note 6, MSF issued limited obligation revenue bonds to acquire ownership in the Anderson House Office Building and the Cadillac Place building. MSF's capital lease agreements with the Michigan House of Representatives (Anderson House Office Building) and the Department of Technology, Management, and Budget (DTMB) (Cadillac Place building) contained lease maturity dates of October 15, 2023 and September 1, 2031, respectively. At the end of the leases, the Michigan House of Representatives and DTMB may purchase the buildings for nominal amounts. The lease payments are paid to a trustee and will be used to pay the interest and retire bonds issued to purchase the buildings. The lease payments are contingent upon annual appropriation by the State of Michigan, and neither the full faith

and credit nor the taxing power of the State are pledged to the payments coming due under the leases.

#### Capital Lease Receivable

	As of September 30, 2013
Total lease payments to be received	\$284,397,076
Less: Unearned interest income	<u>87,181,795</u>
Net lease receivable	<u><u>\$197,215,281</u></u>

  

Statement of net position classification:	
Current portion of lease receivable	\$ 7,777,260
Long-term portion of lease receivable	<u>189,438,021</u>
Total	<u><u>\$197,215,281</u></u>

Lease payments to be received from the Michigan House of Representatives and DTMB as of September 30, 2013 were as follows:

Fiscal Year Ending September 30	Lease Receivable
2014	\$ 17,054,063
2015	17,569,313
2016	18,100,813
2017	18,645,563
2018	19,210,563
2019 - 2028	163,125,713
2029 - 2031	<u>30,691,050</u>
Total	<u><u>\$284,397,076</u></u>

## Note 5 Pension Plans and Other Postemployment Benefits

### a. Classified Employees

State classified employees who work on MSF programs are covered by two single employer pension plans offered by the State of Michigan: the State Employees' Defined Benefit Retirement Plan and 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. MSF does not make any contributions to the deferred compensation plans for employees in the State Employees' Defined Benefit Retirement Plan.

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 is funded by the State on a prefunded basis.

For the State Employees' Defined Benefit Retirement Plan, MSF paid an average 5.39% of its payroll costs for pension charges in fiscal year 2012-13. As of April 1, 2012, defined benefit plan members were required to contribute 4% of their gross wages toward their pension benefit. For the State Employees' Defined Contribution Retirement Plan, MSF is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. In addition, MSF contributed 42.15% of its payroll costs toward other postemployment benefits for most State employees in fiscal year 2012-13. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management, and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

b. Nonclassified Employees

MSF reimburses MEDC for MEDC nonclassified employees working on MSF programs. MEDC offers these nonclassified employees a retirement plan (under Section 401(a) of the Internal Revenue Code) after one year of service. MEDC also offers a deferred compensation plan (under Section 457 of the Internal Revenue Code) to these nonclassified employees upon employment. Both plans are administered by Alerus Retirement Solutions, a third party administrator, and the employees manage their own investments. Other than making contributions to the 401(a) retirement plan, neither MEDC nor MSF has any other pension benefit obligation liability. Nonclassified employees do not have any other postemployment benefits.

MSF reimburses MEDC for an employer contribution rate of 8% of an employee's gross wages to the 401(a) retirement plan for eligible employees. The MEDC Executive Committee approved the contribution and the rate on August 5, 1999. Employees cannot contribute to this plan.

MSF makes no contributions to the 457 deferred compensation plan. Only employees make contributions to this plan.

Note 6 Bonds Payable

MSF's bonds payable as of September 30, 2013 consisted of the following bonds issued and outstanding:

a. Michigan House of Representatives, Anderson House Office Building

MSF issued limited obligation revenue bonds Series 2008A and 2008B in the total amount of \$79,780,000 to acquire ownership in the Anderson House Office Building, located on Capitol Avenue in Lansing, Michigan. The bonds are secured by and payable from lease payments to be paid by the Michigan House of Representatives under the lease and other revenues and funds pledged under the indenture. The lease is not a general obligation of the issuer or the State. Neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the lease.

The proceeds of the bonds were used, together with other available funds, to (a) acquire an office building containing offices for the members of the Michigan House of Representatives and their staff through (i) the defeasance of the prior owner's outstanding Certificates of Participation\* and (ii) the discharge of a prior loan, (b) finance the acquisition and construction of improvements to the facilities, and (c) pay costs of issuing and insuring the bonds.

The scheduled payments of principal and interest on the bonds when due are guaranteed under the financial guarantee insurance policy issued concurrently with the delivery of the bonds by Assured Guaranty Corp. The Series A bonds (\$78,650,000) have a maturity schedule starting in fiscal year 2011-12 and ending in fiscal year 2023-24 with an interest rate yield in the range of 3.33% to 5.19%. The Series B bonds (\$1,130,000) matured on October 15, 2011 with an interest rate yield of 4.00%. The following table summarizes debt service requirements for outstanding bonds:

Fiscal Year Ending September 30	Principal	Interest	Total
2014	\$ 3,205,000	\$ 3,753,138	\$ 6,958,138
2015	4,475,000	3,561,138	8,036,138
2016	5,015,000	3,323,888	8,338,888
2017	5,590,000	3,058,763	8,648,763
2018	6,205,000	2,763,888	8,968,888
2019 - 2023	40,350,000	8,196,056	48,546,056
2024	9,870,000	253,575	10,123,575
<b>Total</b>	<b>\$74,710,000</b>	<b>\$24,910,444</b>	<b>\$99,620,444</b>

b. Cadillac Place

MSF issued limited obligation revenue bonds Series 2011 in the total amount of \$119,115,000, of which \$71,235,000 were serial bonds and \$47,880,000 were term bonds, to acquire ownership in the Cadillac Place in Detroit, Michigan. The bonds are secured by and payable from lease

\* See glossary at end of report for definition.

payments to be paid by DTMB under the lease and other revenues and funds pledged under the indenture. The lease is not a general obligation of the issuer or of the State. Neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the lease.

The proceeds of the bonds were used, together with other available funds, to (a) acquire an office building containing offices for several State departments and also some private tenants, (b) the defeasance of the prior owner's outstanding Certificates of Participation, and (c) pay costs of issuing the bonds.

The serial bonds (\$71,235,000) have a maturity schedule starting in fiscal year 2014-15 and ending in fiscal year 2026-27 with an interest rate yield in the range of 2.13% to 5.02%. The term bonds (\$47,880,000) have a maturity schedule starting in fiscal year 2027-28 and ending in fiscal year 2031-32 with an interest rate yield of 5.30%. The following table summarizes debt service requirements for outstanding bonds:

Fiscal Year Ending September 30		Principal	Interest	Total
2014	\$		\$ 6,169,300	\$ 6,169,300
2015		2,830,000	6,098,550	8,928,550
2016		3,180,000	5,948,300	9,128,300
2017		3,550,000	5,780,050	9,330,050
2018		3,940,000	5,592,800	9,532,800
2019 - 2023		26,485,000	24,394,263	50,879,263
2024 - 2028		40,775,000	15,769,031	56,544,031
2029 - 2032		38,355,000	3,632,869	41,987,869
<b>Total</b>		<b>\$119,115,000</b>	<b>\$73,385,163</b>	<b>\$192,500,163</b>

Changes in total bonds payable for the fiscal year ended September 30, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$196,520,000	\$ 0	\$ 2,695,000	\$193,825,000	\$ 3,205,000	\$ 190,620,000
Unamortized premium	\$ 6,085,246	\$ 0	\$ 403,562	\$ 5,681,684		
Total bonds payable	\$202,605,246	\$ 0	\$ 3,098,562	\$199,506,684		
Current portion				\$ 3,205,000		
Long-term portion				\$196,301,684		

Note 7 Limited Obligation Debt - Private Activity Bonds (PABs)

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

The total amount of PABs issued by MSF and its predecessor entity for the period January 1, 1979 through September 30, 2013 was \$9,614,406,304. The amount of tax-exempt bonds issued during fiscal year 2012-13 was \$329,696,000. There were no taxable bonds issued by MSF under the Taxable Bond Program for fiscal year 2012-13.

## Note 8 Other Long-Term Liabilities

The following table summarizes the changes in other long-term liabilities of MSF for the fiscal year ended September 30, 2013:

	Beginning Balance - Restated	Additions	Reductions	Ending Balance	Due Within One Year
Capital Access Program	\$5,998,320	\$ 638,449	\$ 539,064	\$6,097,704	\$700,000
Compensated absences	\$2,160,737	\$1,152,553	\$1,228,188	\$2,085,103	\$969,176

### a. Capital Access Program

Liabilities for the Capital Access Program consist of an obligation to reimburse financial institutions for possible future loan defaults on high-risk business loans. An asset for the same amount represents the available cash balance that can be used to reimburse the financial institutions for future loan defaults. Additions to the Capital Access Program liabilities represent fees paid by the financial institution, MSF, and the borrower to fund the program and recoveries of defaulted loans. Reductions are payments to the financial institutions for defaulted loans. As of September 30, 2013, there were 37 financial institutions participating in the Capital Access Program.

### b. Compensated Absences

Liabilities for compensated absences were included in the statement of net position, which is on the accrual basis, and not in the governmental fund balance sheet, which is on the modified accrual basis. These liabilities represent unused sick, banked, and annual leave accrued, which will be paid when the employees terminate employment by the applicable funds that account for the salaries and wages of the related employees. The liability is calculated using 100% of the employees' annual and banked leave plus the State's share of social security and retirement contributions and a portion of the sick leave, based on the pay rates in effect as of September 30, 2013.

Note 9 Fund Balance

Restricted fund balance (in millions) as of September 30, 2013 consisted of:

Restricted by enabling legislation:

Jobs for Michigan Investment Fund	\$244.5
Michigan Film Promotion Fund	22.1
Energy Efficiency and Renewable	
Energy Revolving Loan Fund	23.3

Other restricted fund balance:

MBGF - Collateral deposit	31.7
MBGF - Participation loan	11.8
SSBCI checking account	35.9
Cadillac Place - Cost of issuance account	.1
Debt Service Fund	8.1

Total restricted fund balance \$377.6

Committed fund balance of \$10,851 represents grant application fees authorized to be collected through MSF's annual appropriations act. Assigned fund balance of \$30,144,794 consists of encumbrances funded with the State's General Fund and unspent grant funds. Remaining fund balance is considered unassigned.

Note 10 Accounting Restatement

During fiscal year 2012-13, MSF decreased its beginning fund balance in its Jobs for Michigan Investment Fund by \$4,063,208 to account for loan interest revenue that was earned but not available and, therefore, should have been recorded as deferred revenue. This results in a decrease of the net change in fund balance by \$3,300,788 reported for the Jobs for Michigan Investment Fund for fiscal year 2011-12. The remaining \$762,420 relates to the net change in fund balance reported for fiscal years 2010-11 and 2009-10.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**MICHIGAN STRATEGIC FUND**  
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation  
For the Fiscal Year Ended September 30, 2013

Budgetary Comparison Schedule (Statutory/Budgetary Basis)	Original Budget	Final Budget	Actual	Variance With Final Budget
Beginning budgetary fund balance	\$ 140,022,533	\$ 140,022,533	\$ 140,022,533	\$ 0
<b>Resources (inflows):</b>				
Revenues and other sources:				
Charges for services	\$ 43,100	\$ 43,100	\$ 4,393,397	\$ (4,350,297)
Operating grants and contributions	511,641,819	513,408,819	346,087,389	167,321,430
Payments from the State of Michigan:				
From General Fund	101,193,100	102,413,900	80,887,993	21,525,907
From 21st Century Jobs Trust Fund (Note 2)	193,558,262	193,558,262	101,230,735	92,327,527
Other miscellaneous (Note 3)	9,854,313	9,815,763	74,801,075	(64,985,312)
Other financing sources			234,889	(234,889)
Total revenues and other sources	\$ 816,290,594	\$ 819,239,844	\$ 607,635,478	\$ 211,604,366
Total resources available	\$ 956,313,127	\$ 959,262,377	\$ 747,658,011	\$ 211,604,366
<b>Charges (outflows):</b>				
Expenditures, transfers out, and encumbrances:				
Community Development Block Grants	\$ 49,786,700	\$ 49,789,200	\$ 18,261,019	\$ 31,528,181
Other interest			10,080,438	(10,080,438)
Debt service principal redemption			2,695,000	(2,695,000)
Jobs for Michigan Investment Fund - Appropriation Year 2006	45,014,134	45,014,134	12,079,288	32,934,846
Jobs for Michigan Investment Fund - Appropriation Year 2008	3,093,981	3,093,981	1,500,000	1,593,981
Jobs for Michigan Investment Fund - Appropriation Year 2009	4,667,468	4,667,468	1,334,131	3,333,337
Jobs for Michigan Investment Fund - Appropriation Year 2010	4,202,377	4,202,377	1,000,033	3,202,344
Jobs for Michigan Investment Fund - Appropriation Year 2011	18,152,235	18,152,235	12,661,039	5,491,196
Jobs for Michigan Investment Fund - Appropriation Year 2012	43,428,067	43,428,067	15,331,477	28,096,590
Jobs for Michigan Investment Fund - Appropriation Year 2013	75,000,000	75,000,000	35,972,005	39,027,995
Jobs for Michigan Investment Fund - Permanent Fund	28,724,626	28,724,626	28,724,626	0
Payments to MEDC:				
Administration	2,989,200	2,976,600	2,976,600	0
Job creation services	13,970,000	13,919,400	13,503,417	415,983
Community Ventures Program	9,800,000	9,800,000	9,800,000	0
PAB, MEGA, and tribal gaming revenue (Note 3)			47,821,613	(47,821,613)
Michigan Energy Office	14,519,395	14,681,795	9,728,841	4,952,955
Workforce Development Agency	465,350,324	466,952,424	308,029,475	158,922,949
Michigan Film Office and other programs	59,694,317	59,694,417	6,993,327	52,701,090
Arts and Cultural Grants	6,150,000	6,150,000	5,851,827	298,173
Payments to General Fund			1,389,775	(1,389,775)
Miscellaneous and receivable write-off	1,463,899	1,463,899	12,240,332	(10,776,432)
Total charges	\$ 846,006,723	\$ 847,710,623	\$ 557,974,262	\$ 289,736,361
<b>Reconciling items:</b>				
Changes in noncurrent assets	\$ 0	\$ (31,460,837)	\$ (31,460,837)	\$ 0
Net reconciling items	\$ 0	\$ (31,460,837)	\$ (31,460,837)	\$ 0
Ending budgetary fund balance	\$ 110,306,404	\$ 80,090,917	\$ 158,222,912	\$ (78,131,995)

This schedule continued on next page.

**MICHIGAN STRATEGIC FUND**  
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation  
For the Fiscal Year Ended September 30, 2013  
*Continued*

Budget-to-GAAP Reconciliation	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Resources (inflows):</b>				
Actual amount (budgetary basis) of "Total resources available"				\$ 747,658,011
Differences - Budget to GAAP:				
Beginning budgetary fund balance is a budgetary resource but is not a current year revenue for financial reporting purposes				(140,022,533)
Other financing sources are inflows of budgetary resources but are not revenues for financial reporting purposes				<u>(234,889)</u>
Total revenues (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance				<u>\$ 607,400,588</u>
<b>Charges (outflows):</b>				
Actual amount (budgetary basis) of "Total charges"				\$ 557,974,262
Differences - Budget to GAAP:				
Other financing uses are outflows of budgetary resources but are not expenditures for financial reporting purposes				(234,889)
Loans and investments are outflows for budgetary reporting purposes but are not expenditures for financial reporting purposes				<u>(27,365,118)</u>
Total expenditures (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance				<u>\$ 530,374,255</u>

See accompanying notes to required supplementary information.

## Notes to Required Supplementary Information

### Note 1 Statutory Budgetary Presentation

The State of Michigan provides annual legislative appropriations to the Michigan Strategic Fund (MSF) for the Community Development Block Grant (CDBG) Program, the Jobs for Michigan Investment Fund, Workforce Development Agency programs, Michigan Energy Office programs, the Michigan Film Office, Arts and Cultural Grants, and other State programs. The Michigan Economic Development Corporation (MEDC) administers the other State programs. MSF transfers the funding for the State programs to MEDC as required by an interlocal agreement between MSF and MEDC.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue.

The budgetary comparison schedule presents both the original and final appropriated budgets for fiscal year 2012-13, as well as the actual resource inflows, outflows, and fund balance stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into annual appropriations acts, as amended, for fiscal years 2005-06 through 2012-13 and include encumbrances and multi-year projects' budgetary carry-forwards from the prior year.

The budgetary fund balance represents the total fund balance, net of reserves for noncurrent assets. Reserves for noncurrent assets do not represent current financial resources available for appropriations and are not included for budgetary purposes.

### Note 2 21st Century Jobs Trust Fund and Jobs for Michigan Investment Fund

The Michigan Legislature passed a series of public acts in 2005 related to securitizing a portion of the tobacco securitization settlement funds and depositing those funds in the 21st Century Jobs Trust Fund. The MSF Act (Act 270, P.A. 1984) was also amended in 2005 to offer programs and provide funding in the form of loans, investments, and grants for competitive edge

technology and to diversify the economy. From the inception during fiscal year 2005-06 through fiscal year 2012-13, the Legislature has appropriated \$769.5 million from tobacco securitization settlement funds. The funds are retained in the 21st Century Jobs Trust Fund at the Department of Treasury and are reimbursed to MSF as the disbursements are made. In addition to this, starting in fiscal year 2011-12, funds appropriated from State General Funds (\$150 million) for MSF's Business Attraction and Economic Gardening programs were transferred to the 21st Century Jobs Trust Fund pursuant to Act 252, P.A. 2011.

MSF has received a work project authorization for all 21st Century Jobs Trust Fund related appropriations and is thus permitted to spend unspent appropriations over multiple years. The original budget amounts for appropriation year 2006 through appropriation year 2012 reflect carry-forwards of unspent appropriations from these years.

Total charges for fiscal year 2012-13 were \$108.6 million, of which \$22.8 million was disbursed for investments and loans. Investments and loans are not expenditures for financial reporting purposes and are thus listed as a budget-to-GAAP reconciling item.

MSF received revenue of \$101.2 million from the 21st Century Jobs Trust Fund for fiscal year 2012-13.

Note 3 Tribal Gaming

The other miscellaneous revenues in the actual column include tribal gaming revenue of \$59.6 million. The payments to MEDC expenditures include a portion of the tribal gaming revenue transferred to MEDC per the interlocal government agreement.

## GLOSSARY

## Glossary of Abbreviations and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
CDBG	Community Development Block Grant.
Certificate of Participation	Financing in which an individual buys a share of the lease revenues of an agreement made by a municipal or governmental entity, rather than the bond being secured by those revenues.
DELEG	Department of Energy, Labor & Economic Growth. Effective April 24, 2011, DELEG became the Department of Licensing and Regulatory Affairs.
DLJ	DLJ MB Advisors, Inc.
DTMB	Department of Technology, Management, and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.

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.
major fund	A significant governmental or enterprise fund, based on specific size criteria. A government's main operating fund (the general fund or its equivalent) is always considered a major fund. Government officials may also designate other governmental and enterprise funds as major funds when deemed important to financial statement users (for example, because of public interest or consistency).
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
MBGF	Michigan Business Growth Fund.
MEDC	Michigan Economic Development Corporation.
MEGA	Michigan Economic Growth Authority.
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.
MSF	Michigan Strategic Fund.
private activity bond (PAB)	A category of municipal bonds distinguished from public purpose bonds in the Tax Reform Act of 1986.

private equity fund	A type of investment fund that buys majority interest in companies to restructure their capital, management, and organization. Usually, the companies are privately held for two to five years.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
SSBCI	State Small Business Credit Initiative.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
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.









