



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



Doug A. Ringler, CPA, CIA
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

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Report Summary

Financial Audit

Michigan Strategic Fund

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

Fiscal Year Ended September 30, 2014

**Report Number:
271-0401-15**

**Released:
March 2015**

The Michigan Strategic Fund (MSF) was created by Act 270, P.A. 1984. Effective November 21, 2005, Act 225, P.A. 2005, transferred MSF as an autonomous agency from the Department of Energy, Labor & Economic Growth to the Department of Treasury. This financial audit of MSF was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Auditor's Report Issued

UNMODIFIED OPINIONS

MODIFIED OPINIONS

We issued unmodified opinions on MSF's basic financial statements to reflect that they were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control, Compliance, and Other Matters

We will issue our Report on Internal Control, Compliance, and Other Matters within 60 days under a separate cover.

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>

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

Doug A. Ringler, CPA, CIA
Auditor General

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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

March 6, 2015

Mr. Steven Arwood
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Mr. Arwood:

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, 2014.

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,

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. Steven Arwood
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Mr. Arwood:

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, 2014 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, 2014 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 component units as of September 30, 2014, the changes in its financial position, or, where applicable, its 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 2 to the financial statements, beginning fund balance was restated to correct prior period errors. As also discussed in Note 2 to the financial statements, the Michigan Strategic Fund adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for the fiscal year ended September 30, 2014. Our opinion is not modified with respect to these matters.

Other Matter**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule and budget-to-GAAP reconciliation and corresponding notes, as listed in the table of contents, 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,



Doug Ringler
Auditor General
February 25, 2015

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, 2013 through September 30, 2014. 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 State Land Bank Fast Track Authority (SLBFTA) and the Michigan State Housing Development Authority (MSHDA) from the Department of Treasury to MSF. Executive Order No. 2013-8, effective July 16, 2013, transferred SLBFTA from MSF to MSHDA. However, in accordance with governmental accounting and financial reporting standards, SLBFTA and MSHDA are not considered component units of MSF and are reported as discretely presented component units of the State of Michigan in the fiscal year 2014 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

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

During fiscal year 2014, the Skilled Trades Training Program was introduced with \$10 million in General Fund appropriations.

Analysis of Financial Activities

The assets of MSF exceeded its liabilities by \$511.5 million at September 30, 2014 and by \$418.2 million at September 30, 2013. Total net position increased by \$93.3 million during fiscal year 2014.

Condensed Financial Information

Statement of Net Position

As of September 30

	<u>2014</u>	<u>2013</u>
Cash and equity in common cash	\$329,294,734	\$ 217,346,913
Amounts due from federal government	28,498,857	42,513,382
Other current assets	58,311,046	61,843,392
Total current assets	<u>\$416,104,636</u>	<u>\$ 321,703,686</u>
Noncurrent assets	407,339,591	402,831,638
Total assets	<u>\$823,444,228</u>	<u>\$ 724,535,324</u>
Current liabilities	\$116,140,248	\$ 103,347,172
Long-term liabilities	195,852,989	202,986,662
Total liabilities	<u>\$311,993,237</u>	<u>\$ 306,333,834</u>
Net position:		
Restricted	\$476,133,187	\$ 387,961,031
Unrestricted	35,317,803	30,240,459
Total net position	<u>\$511,450,991</u>	<u>\$ 418,201,490</u>

Cash and equity in common cash increased as a result of \$32.4 million in unspent appropriated amounts transferred from the General Fund for the Film Digital Media Production Assistance Program; \$24.6 million increase in the Jobs for Michigan Investment Fund due to loan interest, principal, and fee payments; \$16.5 million in tribal gaming revenues received in September that had not yet been transferred to the

Michigan Economic Development Corporation (MEDC); and \$19.5 million increase in current collateral deposits.

Amounts due from federal government primarily consist of receivables for federal pass-through funds for the Community Development Block Grants (CDBGs), Workforce Development Agency grants, and Michigan Energy Office grants to subrecipients. This line item decreased by a net amount of \$14.0 million during fiscal year 2014. 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, the tribal gaming revenue receivables, and participation loans. This line item decreased by a net amount of \$3.5 million during fiscal year 2014.

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 net increase in noncurrent assets during fiscal year 2014 was \$4.5 million. Investments increased by \$13.8 million largely due to the conversion of loans to investments. Noncurrent collateral funding decreased by \$12.5 million due to decreasing loan balances and MSF receiving the return of the collateral associated with the loans. Noncurrent participation loan funding increased by \$13.9 million largely due to Michigan Community Revitalization Program participation loans funded through the Jobs for Michigan Investment Fund. The total amount of investments and loans receivable (net of loss provisions) included in the current and noncurrent assets categories is \$158.1 million. An explanation of loan loss provisions and other write-offs is included within the analysis of the statement of activities.

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 increased \$12.8 million largely due to an increase of \$14.8 million in amounts due to component units, which was primarily related to tribal gaming revenues received in September that had not yet been transferred to MEDC; an increase of \$4.1 million in bonds payable related to the first principal payment due for the Cadillac Place bonds; and a decrease of \$6.7 million in deferred revenue related primarily to the repayment of a grant received during fiscal year 2013 before the amounts were due, which were earned during fiscal year 2014.

Long-term liabilities primarily consist of bonds payable for buildings MSF has acquired since 2008 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 \$88.2 million primarily related to an increase of \$51.9 million in the Jobs for Michigan Investment Fund and an increase of \$24.9 million in the Michigan Business Growth Fund (MBGF) collateral and participation loan programs net assets.

Unrestricted net position represents resources that are not included in restricted net position. Total unrestricted net position increased by \$5.1 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

	2014	2013
Expenses		
Community Development Block Grants (CDBG)	\$ 25,961,215	\$ 18,261,019
Arts and Cultural Grants	9,810,762	5,851,827
Michigan Energy Office	3,536,310	9,728,841
Jobs for Michigan Investment Fund	110,513,938	81,002,591
Workforce Development Agency Fund	267,373,834	308,029,475
Film Incentives and other programs	30,802,577	
Payments to the Michigan Economic Development Corporation (MEDC)	82,327,617	74,706,595
Other	16,118,010	30,130,800
Total program expenses	\$546,444,264	\$527,711,148
Program revenues		
Charges for services	\$ 3,836,003	\$ 4,393,397
Operating grants and contributions	278,065,628	346,087,389
Total program revenues	\$281,901,631	\$350,480,786
Net program expenses	\$264,542,633	\$177,230,362
General revenues		
Payments from the State of Michigan	\$279,937,606	\$182,118,727
Other	76,585,510	76,444,319
Total general revenues	\$356,523,116	\$258,563,047
Change in net position	\$ 91,980,483	\$ 81,332,685
Net position - Beginning Restated	419,470,508	336,868,805
Net position - Ending	\$511,450,991	\$418,201,490

CDBG expenses increased by \$7.7 million in fiscal year 2014 due to increases in awards made to subrecipients. CDBG is a federal pass-through grant program and grant awards are spent over several years.

Workforce Development Agency Fund and **Michigan Energy Office** expenses primarily consist of federal pass-through grants to local governmental units, private entities, and universities. Expenses decreased by \$46.8 million due to a reduction in federal funds.

Payments to MEDC primarily consist of MSF State appropriations transferred to fund programs administered by MEDC and tribal gaming revenue. Payments to MEDC increased by \$7.6 million during fiscal year 2014 because of funding for a new program, the Skilled Trades Training Program, which was partially offset by a reduction in tribal gaming revenue.

Other expenses primarily consist of payments to the General Fund, other interest, and miscellaneous and receivable write-off expenses. This line item decreased by \$14.0 million primarily due to a decrease in loan loss provisions for doubtful loans, which was partially offset by an increase in write-offs of uncollectible loans. During fiscal year 2014, loan loss provisions for doubtful loans were decreased by \$9.2 million and \$10.1 million was written off for uncollectible loans.

Operating grants and contributions primarily reflect the funds received from the federal government for the CDBG, Workforce Development Agency, and Michigan Energy Office programs. The decrease is due to a reduction in federal funds and due to American Recovery and Reinvestment Act (ARRA) grants winding down.

Payments from the State of Michigan primarily consist of transfers of MSF appropriations from the State General Fund of \$135.5 million and reimbursements of MSF expenditures from the 21st Century Jobs Trust Fund of \$144.4 million. The revenue from the General Fund increased by \$54.6 million as a result of increased authorization of the Film Incentive Program, Job Creation Services Program, and Business Attraction and Community Revitalization programs and introduction of the Skilled Trades Training Program in fiscal year 2014. The revenue from the 21st Century Jobs Trust Fund for grants, loans, investments, and promotion programs increased by \$43.2 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 increased by a net amount of \$0.1 million during fiscal year 2014.

Other Pertinent Information

Executive Order No. 2014-12, effective March 2015, will create the Department of Talent and Economic Development (DTED) and the Michigan Talent Investment Agency (MTIA), one single entity that focuses on growing Michigan's jobs and economy. DTED will bring in MSF, MSHDA, the Unemployment Insurance Agency, and the Workforce Development Agency under one umbrella. MTIA, to be housed within DTED, will be responsible for the Unemployment Insurance Agency and the Workforce Development Agency to integrate new workers into the economy and transition experienced workers into new jobs. Administrative and funding details related to this reorganization will be determined over the next few months.

On February 24, 2015, the MSF Board of Directors authorized the issuance of limited obligation revenue bonds in an amount not to exceed \$57 million to finance reimbursement grants to be made to eligible community colleges under the Community Colleges Skilled Trades Equipment Program. The bonds, when issued, are to be secured and payable from annual MSF appropriations.

On February 25, 2015, MSF issued limited obligation revenue bonds Series 2015A and 2015B in the total amount of \$68,465,000 to finance the Michigan Senate Offices Project, which includes the costs of acquiring an office building located at 201 Townsend Street, Lansing, Michigan; the installation, renovation, repair, furnishing, and equipping of the building; and payment of relocation costs. The bonds are secured by and payable from lease payments to be paid by the Michigan Senate under the lease and other revenues and funds pledged under the indenture.

BASIC FINANCIAL STATEMENTS

MICHIGAN STRATEGIC FUND
Statement of Net Position
As of September 30, 2014

ASSETS

Current assets:

Cash (Note 3)	\$	40,026,322
Equity in common cash (Note 3)		244,074,950
SSBCI checking account (Note 3)		23,745,232
Collateral deposits (Note 4)		21,448,230
Participation loans		7,926,809
Amounts due from federal government		28,498,857
Amounts due from local units		1,977,192
Loans receivable (Note 5)		9,379,251
Capital lease receivable (Note 6)		8,645,100
Interest receivable (Note 5)		1,553,210
Other current assets		28,829,484
Total current assets	\$	416,104,636

Noncurrent assets:

Capital Access Program (Notes 3, 4, and 10)	\$	6,251,990
Collateral deposits (Note 4)		34,231,005
Participation loans		31,926,297
Capital lease receivable (Note 6)		180,792,921
Loans receivable (Note 5)		35,249,126
Interest receivable (Note 5)		615,019
Investments (Note 3)		113,473,235
Other noncurrent assets		4,800,000
Total noncurrent assets	\$	407,339,591

Total assets

\$ 823,444,228

DEFERRED OUTFLOWS OF RESOURCES

\$ 0

LIABILITIES

Current liabilities:

Accounts payable and other liabilities	\$	66,526,327
Amounts due to component units		34,590,513
Capital Access Program (Notes 4 and 10)		500,000
Compensated absences (Note 10)		755,659
Amounts due to primary government		1,068,184
Interest payable		4,518,737
Bonds payable (Note 8)		7,305,000
Unearned revenue		875,828
Total current liabilities	\$	116,140,248

Long-term liabilities:

Bonds payable (Note 8)	\$	188,683,121
Capital Access Program (Notes 4 and 10)		5,751,986
Compensated absences (Note 10)		1,343,614
Amounts due to primary government		24,269
Unearned revenue		50,000
Total long-term liabilities	\$	195,852,989

Total liabilities

\$ 311,993,237

DEFERRED INFLOWS OF RESOURCES

\$ 0

NET POSITION

Restricted for:

Debt service	\$	1,045,506
Other purposes		475,087,681
Unrestricted		35,317,803
Total net position	\$	511,450,991

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

MICHIGAN STRATEGIC FUND
Statement of Activities
For the Fiscal Year Ended September 30, 2014

EXPENSES (Note 1)

Community Development Block Grants	\$ 25,961,215
Arts and Cultural Grants	9,810,762
Michigan Energy Office	3,536,310
Jobs for Michigan Investment Fund	110,513,938
Workforce Development Agency Fund	267,373,834
Film incentives and other programs	30,802,577
Payments to MEDC	82,327,617
Payments to General Fund (indirect and refund)	1,293,192
Debt service principal redemption	25
Other interest	9,460,236
Miscellaneous and receivable write-off	5,364,556
Total expenses	<u>\$ 546,444,264</u>

PROGRAM REVENUES (Note 1)

Charges for services

Program fees	\$ 3,836,003
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Operating grants and contributions

Federal revenues	277,357,756
Revenues from local units	707,872
Total program revenues	<u>\$ 281,901,631</u>

Net expenses	<u>\$ 264,542,633</u>
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GENERAL REVENUES (Note 1)

Payments from the State of Michigan

Payments from General Fund	\$ 135,501,844
Payments from 21st Century Jobs Trust Fund	144,435,762

Other

Interest and investment earnings	7,058,623
Net increase (decrease) in fair value of investments	(8,191,341)
Tribal gaming	54,938,472
Lease revenue	9,276,828
Miscellaneous and payable write-off	13,502,927
Total general revenues	<u>\$ 356,523,116</u>

Increase in net position	\$ 91,980,483
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Net position - Beginning Restated (Note 2)	<u>419,470,508</u>
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Net position - Ending	<u>\$ 511,450,991</u>
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The accompanying notes are an integral part of the financial statements.

MICHIGAN STRATEGIC FUND
Governmental Fund Balance Sheet
As of September 30, 2014

	Major Funds				Total
	General Operations Fund	Workforce Development Agency Fund	Jobs for Michigan Investment Fund	Debt Service Fund	
ASSETS					
Current assets:					
Cash (Note 3)	\$ 18,604,069	\$	\$ 8,611,117	\$ 12,811,136	\$ 40,026,322
Equity in common cash (Note 3)	99,594,738	3,402,336	141,077,876		244,074,950
SSBCI checking account (Note 3)	23,745,232				23,745,232
Collateral deposits (Note 4)	18,142,991		3,305,239		21,448,230
Participation loans	3,183,674		4,743,135		7,926,809
Amounts due from federal government	10,221,618	18,277,239			28,498,857
Amounts due from local units		1,977,192			1,977,192
Loans receivable (Note 5)	1,052,067		8,327,184		9,379,251
Interest receivable (Note 5)	570,588		982,621		1,553,210
Other current assets	16,249,758	292,171	12,287,555		28,829,484
Total current assets	<u>\$ 191,364,736</u>	<u>\$ 23,948,937</u>	<u>\$ 179,334,727</u>	<u>\$ 12,811,136</u>	<u>\$ 407,459,536</u>
Noncurrent assets:					
Capital Access Program (Notes 3, 4, and 10)	\$ 6,251,990	\$	\$	\$	\$ 6,251,990
Collateral deposits (Note 4)	25,977,988		8,253,017		34,231,005
Participation loans	9,487,064		22,439,233		31,926,297
Loans receivable (Note 5)	10,143,715		25,105,411		35,249,126
Interest receivable (Note 5)			615,019		615,019
Investments (Note 3)	1,125,000		112,348,235		113,473,235
Other noncurrent assets	4,750,000		50,000		4,800,000
Total noncurrent assets	<u>\$ 57,735,757</u>	<u>\$ 0</u>	<u>\$ 168,810,914</u>	<u>\$ 0</u>	<u>\$ 226,546,671</u>
Total assets	<u>\$ 249,100,493</u>	<u>\$ 23,948,937</u>	<u>\$ 348,145,641</u>	<u>\$ 12,811,136</u>	<u>\$ 634,006,207</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total assets and deferred outflows of resources	<u>\$ 249,100,493</u>	<u>\$ 23,948,937</u>	<u>\$ 348,145,641</u>	<u>\$ 12,811,136</u>	<u>\$ 634,006,207</u>
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	\$ 13,267,095	\$ 23,694,541	\$ 29,564,691	\$	\$ 66,526,327
Amounts due to component units	28,106,277		1,101,236		29,207,513
Capital Access Program (Notes 4 and 10)	500,000				500,000
Amounts due to primary government	28,630	253,696	688,780		971,106
Unearned revenue	179,035			696,793	875,828
Total current liabilities	<u>\$ 42,081,037</u>	<u>\$ 23,948,237</u>	<u>\$ 31,354,707</u>	<u>\$ 696,793</u>	<u>\$ 98,080,774</u>
Long-term liabilities:					
Unearned revenue	\$	\$	\$ 50,000	\$	\$ 50,000
Capital Access Program (Notes 4 and 10)	5,751,986				5,751,986
Total long-term liabilities	<u>\$ 5,751,986</u>	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 5,801,986</u>
Total liabilities	<u>\$ 47,833,022</u>	<u>\$ 23,948,237</u>	<u>\$ 31,404,707</u>	<u>\$ 696,793</u>	<u>\$ 103,882,759</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue (Note 2)	\$ 5,383,000	\$	\$ 19,591,530	\$	\$ 24,974,530
Total deferred inflows of resources	<u>\$ 5,383,000</u>	<u>\$ 0</u>	<u>\$ 19,591,530</u>	<u>\$ 0</u>	<u>\$ 24,974,530</u>
FUND BALANCE (Note 11)					
Restricted fund balance	\$ 160,567,367	\$	\$ 297,149,404	\$ 12,114,344	\$ 469,831,114
Committed fund balance	13,688				13,688
Assigned fund balance	35,194,506	700			35,195,205
Unassigned fund balance	108,910				108,910
Total fund balance	<u>\$ 195,884,471</u>	<u>\$ 700</u>	<u>\$ 297,149,404</u>	<u>\$ 12,114,344</u>	<u>\$ 505,148,918</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 249,100,493</u>	<u>\$ 23,948,937</u>	<u>\$ 348,145,641</u>	<u>\$ 12,811,136</u>	<u>\$ 634,006,207</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, 2014

Total fund balance	\$ 505,148,918
Amounts reported for governmental activities in the statement of net position are different because:	
Capital lease receivable is not available to pay for current period expenditures and, therefore, is not reported in the governmental fund financial statement.	189,438,021
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statement.	(2,099,273)
Bonds payable and interest payable are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statement. This includes:	
Bonds payable	(195,988,121)
Bond interest payable	(4,518,737)
Certain amounts due to primary government are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statement.	(121,347)
Certain amounts due to component units are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statement.	(5,383,000)
Deferred inflows of resources are not available for the current period and, therefore, are not recognized as revenue in the governmental fund financial statement. This includes:	
Tribal gaming revenue	17,107,528
Loan interest revenue	7,867,002
	17,974,530
Net position of governmental activities	\$ 511,450,991

MICHIGAN STRATEGIC FUND
 Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance
 For the Fiscal Year Ended September 30, 2014

	Major Funds				Total
	General Operations Fund	Workforce Development Agency Fund	Jobs for Michigan Investment Fund	Debt Service Fund	
REVENUES (Note 1)					
<u>Charges for services</u>					
Program fees	\$ 3,836,003	\$	\$	\$	\$ 3,836,003
<u>Operating grants and contributions</u>					
Federal revenues	27,268,684	250,089,071			277,357,756
Revenues from local units	707,872				707,872
<u>Payments from the State of Michigan</u>					
Payments from General Fund	117,196,424	18,305,419			135,501,844
Payments from 21st Century Jobs Trust Fund			144,435,762		144,435,762
<u>Other</u>					
Tribal gaming	39,756,062		16,565,604		56,321,667
Payments from MEDC					
Interest and investment earnings	2,107,249		3,700,302		5,807,551
Net increase (decrease) in fair value of investments			(8,191,341)		(8,191,341)
Lease revenue				17,054,088	17,054,088
Miscellaneous and payable write-off	5,983,387	352,831	6,879,342	133,886	13,349,446
Total revenues	<u>\$ 196,855,683</u>	<u>\$ 268,747,322</u>	<u>\$ 163,389,670</u>	<u>\$ 17,187,974</u>	<u>\$ 646,180,648</u>
EXPENDITURES (Note 1)					
Community Development Block Grants	\$ 25,961,215	\$	\$	\$	\$ 25,961,215
Arts and Cultural Grants	9,810,762				9,810,762
Michigan Energy Office	3,536,310				3,536,310
Jobs for Michigan Investment Fund			110,513,938		110,513,938
Workforce Development Agency Fund		267,373,834			267,373,834
Film incentives and other programs	30,802,577				30,802,577
Payments to MEDC	83,011,136				83,011,136
Payments to General Fund (indirect and refund)	43,205	1,249,988			1,293,192
Other interest				9,935,184	9,935,184
Debt service principal redemption				3,115,025	3,115,025
Miscellaneous and receivable write-off	3,552,151	122,800	975,902	133,333	4,784,187
Total expenditures	<u>\$ 156,717,356</u>	<u>\$ 268,746,622</u>	<u>\$ 111,489,840</u>	<u>\$ 13,183,543</u>	<u>\$ 550,137,361</u>
Excess of revenues over/(under) expenditures	<u>\$ 40,138,327</u>	<u>\$ 700</u>	<u>\$ 51,899,829</u>	<u>\$ 4,004,431</u>	<u>\$ 96,043,287</u>
OTHER FINANCING SOURCES (USES)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 0</u>
Net change in fund balances	\$ 40,138,327	\$ 700	\$ 51,899,829	\$ 4,004,431	\$ 96,043,287
Fund balance - Beginning Restated (Note 2)	155,746,144		245,249,575	8,109,913	409,105,631
Fund balance - Ending	<u>\$ 195,884,471</u>	<u>\$ 700</u>	<u>\$ 297,149,404</u>	<u>\$ 12,114,344</u>	<u>\$ 505,148,918</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, 2014

Net change in fund balance	\$ 96,043,287
Amounts reported for governmental activities in the statement of activities are different because:	
Tribal gaming revenues that are reported as resources in the governmental fund financial statement but were earned in prior fiscal years are not reported in the statement of activities.	(1,383,194)
Certain interest and investment earnings are delayed and not available and have been deferred at the governmental fund level but are recognized in the statement of activities.	1,251,072
Lease revenue is recorded as a resource in the governmental fund financial statement; however, a portion of the lease revenue is applied to the lease receivable in the statement of activities.	(7,777,260)
Payments to MEDC that were reported as expenditures in the governmental fund financial statement but were due and payable in the prior fiscal year are not reported in the statement of activities.	683,519
Other interest expense for bonds payable that is not due and payable in the current period is not recorded in the governmental fund financial statement.	474,948
Debt service principal redemption is due and payable in the current period and is reported as an expenditure in the governmental fund financial statement.	3,115,000
Miscellaneous and payable write-off are not recorded in the governmental fund financial statement for payables recorded in the statement of activities.	153,481
Miscellaneous and receivable write-off are not recorded in the governmental fund financial statement for receivables recorded in the statement of activities.	(663,278)
Compensated absences and supplemental pension payments are not reported in the governmental fund financial statement because payments are not due and do not use current financial resources.	82,908
Change in net position of governmental activities	\$ 91,980,483

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 Bureau of Workforce Transformation and energy programs from DELEG and the State Land Bank Fast Track Authority (SLBFTA) and the Michigan State Housing Development Authority (MSHDA) from the Department of Treasury to MSF. However, all accounting and reporting responsibilities were transferred effective October 1, 2011, except for MSHDA, which is responsible for its own accounting and reporting responsibilities.

Executive Order No. 2013-8, effective July 16, 2013, transferred SLBFTA from MSF to MSHDA. In accordance with governmental accounting and financial reporting standards, SLBFTA and MSHDA are not considered component units of MSF and are reported as discretely presented component units of the State of Michigan in the fiscal year 2014 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Executive Order No. 2014-8, effective July 21, 2014, abolished the SLBFTA Board of Directors and Office of Executive Director and transferred all responsibilities and functions to the executive director of MSHDA. Therefore, beginning in fiscal year 2015, SLBFTA will be reported as a component unit of MSHDA.

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, deferred inflows of resources, 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 component units in conformity 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,

* See glossary at end of report for definition.

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 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; 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. Film Office expenditures consist of grants to film producers to promote film industry in Michigan. Arts and Cultural Grants expenditures consist of grants to local libraries, schools, and art groups. Payments to MEDC include tribal gaming; fees from PABs, MEGA, and Brownfield; and State appropriations for programs administered by MEDC. Expenditures in each of the programs also include administrative and other miscellaneous costs.

(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.

* See glossary at end of report for definition.

(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 State Small Business Credit Initiative (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 11).

- (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 Accounting Changes and Restatements

a. Accounting Changes

During fiscal year 2014, MSF implemented the following Governmental Accounting Standards Board (GASB) statements:

- (1) GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of the implementation, MSF reclassified certain tribal gaming and loan interest revenue previously classified as liabilities (deferred revenue) as deferred inflows of resources because the revenues were not available.

(2) GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The effects of applying this standard are disclosed in Note 4.

b. Restatements

During fiscal year 2014, MSF restated its beginning fund balance and net position for the following:

- (1) Increased beginning fund balance in its Jobs for Michigan Investment Fund and increased beginning net position on its statement of activities by \$775,881 to account for a prior period adjustment where an investment was not recorded properly.
- (2) Increased beginning fund balance in its General Operations Fund and increased beginning net position on its statement of activities by \$493,136 to reflect prior period accounting adjustments. Executive Order No. 2011-4 moved the Workforce Development Agency and the Energy Efficiency and Renewable Energy Revolving Loan Fund from DELEG. These account balances were overlooked in the original transfer.

Note 3 Deposits and Investments

a. Deposits

Deposits held by MSF at September 30, 2014 were as follows:

Equity in common cash	\$ 244,074,950
Deposits	60,296,564
Capital Access Program	6,251,990
Collateral deposits	55,679,234
Total deposits	<u>\$ 366,302,739</u>

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

Deposits included in MSF's bank accounts (without recognition of outstanding checks or deposits in transit) were \$121,835,767 at September 30, 2014. 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 that amount, \$77,607,848 was uninsured and uncollateralized and \$21,410,760 was uninsured and 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; therefore, these amounts were 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, 2014, 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 (which sold its private equity

* See glossary at end of report for definition.

group to Grosvenor Capital Management in fiscal year 2014), 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 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 Automotive, 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 investments are generally reported at fair value as determined by MSF's portfolio managers based on site visits, review of companies' available financial data/reports, and professional judgment. The following table shows the fair value of investments at September 30, 2014 by investment type and in total:

Type of Investment	Fair Value (in millions) as of September 30, 2014
Venture capital - Limited partnerships	\$ 67.1
Venture capital - Stockholder	29.1
Mezzanine funds	9.6
Private equity	7.7
Total investments	\$113.5

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. At September 30, 2014, MSF did not have any investments with a single issuer that were more than 5% of MSF's total investments.

Note 4 Nonexchange Financial Guarantees

MSF extends nonexchange financial guarantees through both its Capital Access Program and collateral deposit programs. The MSF Board of Directors has the legal authority to approve the program creation and guidelines and to

delegate authority for the administration of the programs. MSF has a contractual relationship with the issuing financial entities that are issuing the obligations under both programs.

Under the Capital Access Program, MSF contributes a minimum of 3% and a maximum of 7% of the total loan amount that is deposited into a special reserve fund to cover future losses that may occur on these loans. The length of time of the guarantees varies as it is only when the issuing entity stops offering this program and all loans are paid in full that any remaining funds in the reserve fund would be returned to MSF. Due to the high risk nature of these loans, MSF records a liability that is limited to the amount of deposits MSF has made to the special reserve account. As of September 30, 2014, the total amount on deposit in the reserve fund was \$6,251,986.

Under the collateral deposit programs, MSF generally guarantees up to 49.9% of the total loan amount, with a total dollar limit of \$5.0 million per project. The length of time of the guarantees is based on the length of each borrowing period as determined between the lender and the borrower. On a quarterly basis, MSF reconciles its collateral deposit balances with the lenders and collects any monies that are contractually owed back to MSF. Based on information obtained by MSF from the lenders regarding the likelihood of default, MSF did not recognize any liability for these deposits. MSF has separate subordinated guarantee agreements with the borrowers for the majority of its collateral deposits, which provide MSF with the right to recover its funds in the event of default. As of September 30, 2014, collateral deposits were \$55,679,234, which include outstanding guarantees of \$53,861,990.

Note 5 Loans and Interest Receivable

Loans receivable totaled \$33,432,595 at September 30, 2014 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 with an opportunity to substantially complete the project. Interest receivable of \$1,597,640, consisting of \$982,621 in current interest receivable and \$615,019 in noncurrent interest receivable, was reported as revenue on the entity-wide financial statements but as deferred inflows of resources on the governmental fund balance sheet because the revenue was not available.

Loans receivables totaled \$11,195,782 at September 30, 2014 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 to purchase and install energy conservation measures and manufacturing equipment and to retool. 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.

Loans receivable held by MSF as of September 30, 2014 consisted of the following:

Loan Category	Loans Receivable
Technology Tri-Corridor	\$ 5,170,317
Life Sciences	2,515,869
Choose Michigan Fund	4,640,799
Competitive Edge Technology:	
Advanced Automotive, Manufacturing, and Materials Technology	5,558,892
Life Sciences Technology	21,908,046
Homeland Security and Defense Technology	9,850,558
Alternative Energy Technology	891,502
Capital Conduit Program	5,844,631
Business Attraction and Economic Gardening	4,985,806
Pure Michigan Venture Match Fund	437,500
Michigan Energy Office loans	12,250,916
Total	<u>\$ 74,054,835</u>
Less: Allowance for uncollectible loans	<u>(29,426,457)</u>
Total loans receivable (net)	<u><u>\$ 44,628,377</u></u>

Note 6 Capital Lease Receivable

As described in Note 8, 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 House of Representatives and DTMB may purchase the buildings for nominal amounts. The lease payments are paid to a trustee and are being 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. The following table summarizes the components of MSF's net lease receivable:

Capital Lease Receivable

	As of September 30, 2014
Total lease payments to be received	\$267,343,013
Less: Unearned interest income	77,904,993
	<hr/>
Net lease receivable	\$189,438,021
	<hr/> <hr/>
Statement of net position classification:	
Current portion of lease receivable	\$ 8,645,100
Long-term portion of lease receivable	180,792,921
	<hr/>
Total	\$189,438,021
	<hr/> <hr/>

Lease payments to be received from the House of Representatives and DTMB as of September 30, 2014:

Fiscal Year Ended September 30	Lease Receivable
2015	\$ 17,569,313
2016	18,100,813
2017	18,645,563
2018	19,210,563
2019	19,792,313
2020 - 2029	155,911,813
2030 - 2031	18,112,638
Total	<u>\$267,343,013</u>

Note 7 Pension Plans and Other Postemployment Benefits

a. Classified Employees

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

Prior to April 1, 2012, State statutes provided 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 prefunded basis.

For the State Employees' Defined Benefit Retirement Plan, MSF paid an average of 3.26% of its payroll costs for pension charges in fiscal year 2014. As of April 1, 2012, defined benefit plan members were required to contribute 4% of their compensation 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. MSF transferred \$594,446 of its payroll costs for its employer contribution for the defined contribution plan in fiscal year 2014. In addition, MSF contributed 46.97% toward other postemployment benefits for most State employees in fiscal year 2014. The Plans' detailed financial statements may be obtained by visiting <<http://www.michigan.gov/ors>>, by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, P.O. Box 30171, Lansing, Michigan 48909, or by calling (800) 381-5111.

b. Nonclassified Employees

MSF reimburses MEDC for MEDC nonclassified employees working on MSF programs. MEDC offers a defined contribution 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 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 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. 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. During fiscal year 2008, the MEDC Executive Committee approved a 12% contribution rate for employees in senior vice president positions. All contributions are made

on a biweekly basis. Employees cannot contribute to this plan. MSF reimbursed MEDC approximately \$350,000 for contributions made by MEDC to the 401(a) retirement plan for MEDC employees that worked on MSF programs.

Neither MEDC nor MSF make any contributions to the 457 deferred compensation plan. Only employees make contributions to this plan.

Note 8 Bonds Payable

MSF's bonds payable as of September 30, 2014 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 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 2012 and ending in fiscal year 2024 with an interest rate yield in the range of 3.33% to 5.19%. The Series B bonds

* See glossary at end of report for definition.

(\$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
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	6,705,000	2,441,138	9,146,138
2020 - 2024	43,605,000	6,008,494	49,613,494
Total	<u>\$71,595,000</u>	<u>\$21,157,308</u>	<u>\$ 92,752,308</u>

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 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 through the defeasance of the prior owner's outstanding Certificates of Participation and (b) pay costs of issuing the bonds.

The serial bonds (\$71,235,000) have a maturity schedule starting in fiscal year 2015 and ending in fiscal year 2027 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 2028 and ending in fiscal year

2032 with an interest yield of 5.30%. The following table summarizes debt service requirements for outstanding bonds:

Fiscal Year Ending September 30	Principal	Interest	Total
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	4,360,000	5,385,300	9,745,300
2020 - 2024	28,990,000	22,983,081	51,973,081
2025 - 2029	44,200,000	13,538,438	57,738,438
2030 - 2032	28,065,000	1,889,344	29,954,344
Total	<u>\$119,115,000</u>	<u>\$67,215,863</u>	<u>\$186,330,863</u>

Changes in total bonds payable for the fiscal year ended September 30, 2014 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$193,825,000	\$ 0	\$3,115,000	\$190,710,000	\$7,305,000	\$183,405,000
Unamortized premium	\$ 5,681,684	\$ 0	\$ 403,562	\$ 5,278,121		
Total bonds payable	\$199,506,684	\$ 0	\$3,518,562	\$195,988,121		
Current portion				\$ 7,305,000		
Long-term portion				\$188,683,121		

Note 9 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 PAB and Taxable Bond Programs. The bonds issued are payable solely from the net revenues or other funds as described in the bond indentures and are not obligations 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, 2014 was \$9,852,593,735. The amount of tax-exempt bonds issued during fiscal year 2014 was \$238,187,431. There were no taxable bonds issued by MSF under the Taxable Bond Program for fiscal year 2014.

Note 10 Other Long-Term Liabilities

The following table summarizes the changes in other long-term liabilities of MSF for the fiscal year ended September 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Access Program	\$6,097,704	\$ 554,326	\$ 400,044	\$6,251,986	\$500,000
Compensated absences	\$2,085,103	\$1,142,431	\$1,128,261	\$2,099,273	\$755,659

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. Increases in 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, 2014, 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, 2014.

Note 11 Fund Balance

Restricted fund balance (in millions) as of September 30, 2014 consists of:

Restricted by enabling legislation:	
Jobs for Michigan Investment Fund	\$297.1
Michigan Film Promotion Fund	54.2
Energy Efficiency and Renewable Energy Revolving Loan Fund	25.7
Other restricted fund balance:	
MBGF - Collateral Deposit	44.1
MBGF - Participation Loan	12.7
SSBCI checking account	23.8
Cadillac Place - Cost of Issuance Account	.1
Debt Service Fund	12.1
	<hr/>
Total restricted fund balance	<u>\$469.8</u>

Committed fund balance of \$13,688 represents grant application fees authorized to be collected through MSF's annual appropriations act. Assigned fund balance of \$35,195,205 consists of encumbrances funded with the State General Fund and unspent grant funds. Remaining fund balance is considered unassigned.

Note 12 Subsequent Event

Executive Order No. 2014-12, effective March 2015, will create the Department of Talent and Economic Development (DTED) and the Michigan Talent Investment Agency (MTIA), which will be housed within DTED. DTED will bring in MSF, MSHDA, the Unemployment Insurance Agency, and the Workforce Development Agency under one department. This executive order will transfer MSF from the Department of Treasury to DTED. It will also transfer the Workforce Development Agency from MSF to MTIA and the revenue bonding powers of SLBFTA from the executive director of MSHDA to MSF. Administrative and funding details related to this reorganization will be determined over the next few months.

On February 24, 2015, the MSF Board of Directors authorized the issuance of limited obligation revenue bonds in an amount not to exceed \$57 million to finance reimbursement grants to be made to eligible community colleges under the Community Colleges Skilled Trades Equipment Program. The bonds, when issued, are to be secured and payable from annual MSF appropriations.

On February 25, 2015, MSF issued limited obligation revenue bonds Series 2015A and 2015B in the total amount of \$68,465,000 to finance the Michigan Senate Offices Project, which includes the costs of acquiring an office building located at 201 Townsend Street, Lansing, Michigan; the installation, renovation, repair, furnishing, and equipping of the building; and payment of relocation costs. The bonds are secured by and payable from lease payments to be paid by the Michigan Senate under the lease and other revenues and funds pledged under the indenture.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN STRATEGIC FUND
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation
 For the Fiscal Year Ended September 30, 2014

Budgetary Comparison Schedule (Statutory/Budgetary Basis)	Original Budget	Final Budget	Actual	Variance With Final Budget
Beginning budgetary fund balance	\$ 158,222,912	\$ 158,222,912	\$ 158,222,912	\$ 0
Resources (inflows):				
Revenues and other sources:				
Charges for services	\$ 5,500	\$ 5,500	\$ 3,836,003	\$ (3,830,503)
Operating grants and contributions	502,297,141	507,031,141	278,065,628	228,965,513
Payments from the State of Michigan:				
From General Fund	118,355,400	118,355,400	135,501,844	(17,146,444)
From 21st Century Jobs Trust Fund (Note 2)	317,322,527	419,822,527	144,435,762	275,386,765
Other miscellaneous (Note 3)	21,424,670	21,424,670	84,341,411	(84,341,411)
Total revenues and other sources	<u>\$ 959,405,238</u>	<u>\$ 1,045,214,568</u>	<u>\$ 646,180,648</u>	<u>\$ 399,033,920</u>
Total resources available	<u>\$ 1,117,628,150</u>	<u>\$ 1,203,437,479</u>	<u>\$ 804,403,559</u>	<u>\$ 399,033,920</u>
Charges (outflows):				
Expenditures, transfers out, and encumbrances:				
Community Development Block Grants	\$ 49,780,700	\$ 49,780,700	\$ 25,961,215	\$ 23,819,485
Other interest			9,935,184	(9,935,184)
Debt service principal redemption			3,115,025	(3,115,025)
Jobs for Michigan Investment Fund - Appropriation Year 2006	32,934,846	32,934,846	7,587,142	25,347,704
Jobs for Michigan Investment Fund - Appropriation Year 2008	1,593,981	1,593,981		1,593,981
Jobs for Michigan Investment Fund - Appropriation Year 2009	3,333,337	3,333,337	988,232	2,345,105
Jobs for Michigan Investment Fund - Appropriation Year 2010	3,202,344	3,202,344	537,345	2,664,999
Jobs for Michigan Investment Fund - Appropriation Year 2011	5,491,196	5,491,196	2,092,429	3,398,767
Jobs for Michigan Investment Fund - Appropriation Year 2012 (Note 4)	82,577,419	82,577,419	29,403,981	53,173,438
Jobs for Michigan Investment Fund - Appropriation Year 2013 (Note 4)	113,189,404	113,189,404	48,833,945	64,355,459
Jobs for Michigan Investment Fund - Appropriation Year 2014	75,000,000	177,500,000	55,000,159	122,499,841
Jobs for Michigan Investment Fund - Permanent Fund	17,116,268	17,116,268	17,116,268	0
Payments to MEDC:				
Administration	3,058,700	3,058,700	3,058,700	0
Job creation services	19,307,800	19,307,800	16,967,976	2,339,824
Community Ventures Program	9,800,000	9,800,000	9,800,000	0
Skilled Trades Training Fund	10,000,000	10,000,000	10,000,000	0
Detroit Rouge Park Improvements	300,000	300,000	300,000	0
Precollege Program - Science and Engineering	340,000	340,000	340,000	0
PAB, MEGA, and tribal gaming revenue (Note 3)			42,544,460	(42,544,460)
Michigan Energy Office	5,666,100	5,666,100	3,536,310	(3,536,310)
Workforce Development Agency	445,794,341	450,534,341	267,373,834	183,160,507
Michigan Film Office and other programs	103,270,765	103,270,765	30,802,577	72,468,188
Arts and Cultural Grants	8,150,000	8,150,000	9,810,762	(1,660,762)
Payments to General Fund			1,293,192	(1,293,192)
Miscellaneous and receivable write-off	3,309,602	3,309,602	4,784,187	(1,474,585)
Total charges	<u>\$ 993,216,803</u>	<u>\$ 1,094,790,703</u>	<u>\$ 601,182,924</u>	<u>\$ 493,607,779</u>
Reconciling items:				
Changes in noncurrent assets	\$ 0	\$ (37,272,706)	\$ (37,272,706)	\$ 0
Net reconciling items	<u>\$ 0</u>	<u>\$ (37,272,706)</u>	<u>\$ (37,272,706)</u>	<u>\$ 0</u>
Ending budgetary fund balance	<u>\$ 124,411,347</u>	<u>\$ 71,374,070</u>	<u>\$ 165,947,929</u>	<u>\$ (94,573,859)</u>

This schedule continued on next page.

MICHIGAN STRATEGIC FUND
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation
 For the Fiscal Year Ended September 30, 2014
 Continued

<u>Budget-to-GAAP Reconciliation</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Resources (inflows):				
Actual amount (budgetary basis) of "Total resources available"			\$ 804,403,559	
Differences - Budget to GAAP:				
Beginning budgetary fund balance is a budgetary resource but is not a current year revenue for financial reporting purposes			<u>(158,222,912)</u>	
Total revenues (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance			<u>\$ 646,180,648</u>	
Charges (outflows):				
Actual amount (budgetary basis) of "Total charges"			\$ 601,182,924	
Differences - Budget to GAAP:				
Loans and investments are outflows for budgetary reporting purposes but are not expenditures for financial reporting purposes			<u>(51,045,563)</u>	
Total expenditures (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance			<u>\$ 550,137,361</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 2014, 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 2006 through 2014 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 2006 through fiscal year 2014, the Legislature has appropriated \$844.5 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 2012, funds appropriated from the State General Fund (\$252.5 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 2013 reflect carry-forward of unspent appropriation from these years.

Total charges for fiscal year 2014 were \$161.6 million, of which \$51.0 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 \$144.4 million from the 21st Century Jobs Trust Fund for fiscal year 2014.

Note 3 Tribal Gaming

The other miscellaneous revenues in the actual column include tribal gaming revenue of \$56.3 million. The payments to MEDC expenditures include a portion of the tribal gaming revenue transferred to MEDC according to the interlocal agreement.

Note 4 Jobs for Michigan Investment Fund - Appropriation Years 2012 and 2013

In appropriation years 2012 and 2013, MSF appropriations included Business Attraction and Economic Gardening line items funded by the State General Fund that were required to be transferred to the 21st Century Jobs Trust Fund

at the Department of Treasury. These funds were then drawn from the 21st Century Jobs Trust Fund to fund the expenditures made by MSF. These appropriations were mistakenly omitted from MSF's budgetary comparison schedules in fiscal year 2012 and fiscal year 2013. The unspent balances of these work project authorizations are included in the original and final budgets presented in the fiscal year 2014 budgetary comparison schedule.

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.
DTED	Department of Talent and Economic Development.
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.

modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MSF	Michigan Strategic Fund.
MSHDA	Michigan State Housing Development Authority.
MTIA	Michigan Talent Investment Agency.
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.
SLBFTA	State Land Bank Fast Track Authority.
SOMCAFR	<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.

