MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION

Department of Talent and Economic Development

Annual Financial Report of the Michigan Economic Development Corporation

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

Fiscal Year Ended September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

OAG
Office of the Auditor General
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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, Chief Executive Officer
and
Mr. Doug Rothwell, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Arwood and Mr. Rothwell:

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Economic Development Corporation, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the Michigan Economic Development Corporation'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Economic Development Corporation as of September 30, 2015 and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Doug A. Ringler, CPA, CIA
Auditor General

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Economic Development Corporation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2015, 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, the Michigan Economic Development Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the fiscal year ended September 30, 2015. 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 and pension liability information, 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 Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Economic Development Corporation's internal control over financial reporting and compliance.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
March 3, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Economic Development Corporation's (MEDC's) management has prepared this discussion and analysis of the financial performance of MEDC for the period October 1, 2014, through September 30, 2015. MEDC is a public body corporate and a discretely presented component unit of the financial reporting entity of the State of Michigan. MEDC's management is responsible for the basic financial statements 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 reporting requirements of GASB require a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. This financial report includes the independent auditor's report, management's discussion and analysis, the basic financial statements, and notes to the financial statements. Amounts reported in the financial statements include both the MEDC corporate funds as well as the State funds made available to MEDC.

The financial statements are interrelated and represent the financial status of MEDC. The statement of net position presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the end of the fiscal year. The statement of revenues, expenses, and changes in fund net position presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash in-flows and out-flows summarized by operating, capital and related financing, and investing activities.

Analysis of Financial Activities

The assets of MEDC exceeded its liabilities by $105 million at September 30, 2015, and by $130.7 million at September 30, 2014. As of September 30, 2015, $30.3 million of this amount was in equity in common cash of the State of Michigan.

Condensed Financial Information

From the Statement of Net Position

As of September 30

	2015	2014
Current assets	$ 81,570,016	$ 79,749,723
Noncurrent assets		
Collateral deposit	$ 355,545	$ 368,462
Loans receivable (net)	3,975,728	4,026,772
Investments	44,257,303	52,417,951
Capital assets (net)	7,091,841	7,531,916
Advances to primary government	-	-
Interest receivable	162,099	-
Total noncurrent assets	$ 55,842,516	$ 64,345,101
Total assets	$137,412,532	$144,094,824
Deferred outflows of resources	$ 2,920,686	-
Total assets and deferred outflows of resources	$140,333,218	$144,094,824
Current liabilities	$ 18,771,113	$ 12,332,727
Long-term liabilities	14,891,672	1,103,725
Total liabilities	$ 33,662,785	$ 13,436,452
Deferred inflows of resources	$ 1,621,928	$ -
Total liabilities and deferred inflows of resources	$ 35,284,713	$ 13,436,452
Net position		
Net investment in capital assets	$ 7,091,941	$ 7,531,916
Unrestricted	97,956,664	123,126,456
Total net position	$105,048,505	$130,658,372

Current assets primarily consist of amounts held in cash, money market accounts, and short-term investments by MEDC; funds in the State of Michigan's equity in common cash; short-term loans receivable; amounts due from the Michigan Strategic Fund (MSF); and receivables for tribal gaming revenues. Interest earned on funds retained in the common cash pool of the State of Michigan is the income of the State and is not transferred to MEDC.

Loans receivable (net) includes the current and long-term portion of the outstanding loans, net of loan loss provisions. Net loans receivable decreased by $51,043. An explanation of loan loss provisions and other write-offs is included within the analysis of the statement of revenues, expenses, and changes in net position.

Investments includes cash investments used to fund the operations of the MEDC and program related investments with outside entities. Non-current investments decreased by $8.2 million primarily due to a decrease in cash investments.

Capital assets (net) at September 30, 2015 included the cost of the MEDC headquarters building, furniture, trademark, and information technology equipment, net of depreciation.

Current liabilities at September 30, 2015, which primarily consist of accounts payable at year-end, including payroll obligations, increased by $6.4 million. This is primarily related to accounts payable for business attraction, marketing activities, and special grants for identified industries and recipients.

Long-term liabilities represent $1.1 million in long term compensated absences liabilities and $13.8 million in net pension liabilities. The increase in long-term liabilities is due to the net pension liability. Fiscal year 2015 is the first time MEDC had to record this due to the implementation of a new GASB statement. Additional information is included in the notes to the financial statements.

Deferred outflows / inflows of resources are related to pensions**.** These are also due to the implementation of the new GASB statement.

Overall, **net position** decreased by $25.6 million during fiscal year 2015 as a result of the preceding activities.

Condensed Financial Information
From the Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30

	2015	2014
Operating revenues		
Operating grants	$ 80,391,645	$ 82,277,096
Interest and investment earnings	3,264,495	(92,587)
Other operating revenues	4,646,391	5,141,230
Total operating revenues	$ 88,302,531	$ 87,325,738
Operating expenses		
Salaries, wages and other administrative expenses	$ 37,970,483	$ 39,731,263
Loan loss provisions and other write-offs	237,223	2,436,189
Payments to MSF and primary government	-	10,457
Operating grants	62,217,775	43,967,397
Total operating expenses	$ 100,425,480	$ 86,145,307
Operating income (loss)	$ (12,122,949)	$ 1,180,432
Change in net position	$ (12,122,949)	$ 1,180,432
Total net position - Beginning Restated	117,171,454	$ 129,477,941
Total net position - Ending	105,048,505	$ 130,658,372

Operating grants and contributions included $55.1 million received from State appropriated funding for the economic development programs and $25.3 million in tribal gaming revenue and miscellaneous fees transferred from MSF. The revenue from State appropriated programs funding increased by $15 million primarily due to additional General Fund appropriations for special grants for identified industries or recipients. The revenue from tribal gaming revenues and miscellaneous fees decreased by $16.5 million primarily due to the withholding of anticipated payments from Gun Lake Casino, operated by the Match-E-Be-Nash-She-Wish Band of Pottawatomi Indians. The tribal compact governing these payments is currently under negotiation through the Office of the Governor.

Interest and investment earnings includes earnings on MEDC's cash investments and fair market valuation adjustments on program related investments with outside entities. Interest and investment earnings increased by $3.3 million due to an increase in fair market valuation adjustments by $6 million while earnings on cash investments decreased by $2.4 million.

Other operating revenues primarily consist of $2.4 million in tribal gaming revenue from the Keweenaw Bay Indian Community and $1.27 million in lease revenues from the Michigan Life Science and Innovation Center (MLSIC), a building managed by MEDC on behalf of the Michigan Land Bank Fast Track Authority (a discretely presented component unit of the State of Michigan). All MLSIC building related expenditures are included in other administrative expenses.

Loan loss provisions and other write-offs primarily includes $0.2 million for a write-off of an uncollectible receivable.

Operating grants for fiscal year 2015 included disbursements of matching funds for federal competitive grants; and for Skilled Trades Training Program, Export Program, Talent Development Program, Community Ventures Program, special grants for identified industries or receipts, marketing, and other program expenses. Operating grants increased by $18.3 million primarily due to two new appropriated programs in fiscal year 2015, special grants for identified industries or receipts and the automotive, engineering and manufacturing technology fund program.

Condensed Financial Information

From the Statement of Cash Flows

For the Fiscal Years Ended September 30

	2015	2014
Cash provided (used) by:		
Operating activities	$ 16,215,696	$ (8,238,423)
Capital and related financing activities		
Investing activities	5,444,313	(3,064,919)
Net increase (decrease) in cash	$ 21,660,009	$ (11,303,343)
Cash and cash equivalents at beginning of year	33,110,734	44,414,076
Cash and cash equivalents at end of year	$ 54,770,742	$ 33,110,734

Cash and cash equivalents at end of fiscal year 2015 of $54.8 million included $24.5 million in checking and money market accounts in Bank of America and $30.3 million equity in the State of Michigan common cash. Cash and cash equivalents increased by $21.7 million mainly due to an increase in tribal gaming revenue, which is primarily due to $16.5 million in tribal gaming revenue being received in MSF at the end of fiscal year 2014 but wasn't transferred to MEDC until the beginning of fiscal year 2015.

Other Pertinent Information

MEDC was a party to Executive Order 2015-10, effective in May 2015, transferred the Michigan Energy Office to the newly created Michigan Agency for Energy within LARA. The office was housed in the Michigan Strategic Fund and received funding from the MEDC along with administrative support. These activities continued through fiscal year 2015.

BASIC FINANCIAL STATEMENTS

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Net Position
As of September 30, 2015

ASSETS	
Current assets:	
Cash (Note 3)	24,414,851
Equity in common cash (Note 3)	30,270,109
Money market fund (Note 3)	85,782
Tribal gaming receivable	1,304,273
Amounts due from MSF	13,152,498
Amount due from primary government	409,281
Loans receivable (net) (Note 5)	399,364
Investments (Note 3)	11,054,606
Other current assets	
Interest receivable	122,119
Miscellaneous	357,133
Total current assets	81,570,016
Noncurrent assets:	
Collateral deposit	355,545
Loans receivable (net) (Note 5)	3,975,728
Investments (Note 3)	44,257,303
Capital assets (net) (Note 6)	7,091,841
Interest receivable	162,099
Total noncurrent assets	55,842,516
Total assets	137,412,532
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	$ 2,920,686
Total deferred outflows of resources	$ 2,920,686
Total assets and deferred outflows of resources	$ 140,333,218
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	16,451,465
Compensated absences (Note 7)	1,108,465
Amounts due to primary government	777,534
Amounts due to MSF	433,649
Total current liabilities	18,771,113
Long-term liabilities:	
Compensated absences (Note 7)	1,063,473
Net pension liability (Note 7)	13,828,199
Total long-term liabilities	14,891,672
Total liabilities	33,662,785
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	$ 1,621,928
Total deferred inflows of resources	$ 1,621,928
Total liabilities and deferred inflows of resources	$ 35,284,713
NET POSITION	
Invested in capital assets	7,091,841
Unrestricted	97,956,664
Total net position	105,048,505

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2015

OPERATING REVENUES (Note 1)		
Operating grants and contributions		
Payments from MSF - State appropriated programs	$	55,116,625
Payments from MSF - Tribal gaming and fees		25,275,020
Total operating grants and contributions	$	80,391,645
Interest and investment earnings		
Investment earnings	$	983,451
Net increase (decrease) in fair value of investments		1,941,172
Interest income on loans		339,872
Total interest and investment earnings	$	3,264,495
Other operating revenues		
Tribal gaming	$	2,435,062
Other operating revenues		2,211,328
Total other operating revenues		4,646,391
Total operating revenues	$	88,302,531
OPERATING EXPENSES (Note 1)		
Salaries, wages and other administrative expenses	$	37,970,483
Loan loss provision and other write off		237,223
Operating grants		62,217,775
Total operating expenses	$	100,425,480
Operating income (loss)	$	(12,122,949)
Change in net position	$	(12,122,949)
Total net position - Beginning Restated (Note 2)		117,171,454
Total net position - Ending	$	105,048,505

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Statement of Cash Flows

For the Fiscal Year Ended September 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to employees	$	(28,782,590)
Payments to suppliers		(9,512,284)
Tribal gaming revenue		2,358,949
Other operating revenue		2,680,664
Operating grants		(54,234,252)
Payments from MSF		103,705,209
Net cash provided (used) by operating activities	$	16,215,696
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	$	-
Net cash provided (used) by capital and related financing activities	$	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases, sales, and maturities of investment securities (net)	$	4,328,743
Interest and dividends on investments		1,115,569
Net cash provided (used) by investing activities	$	5,444,313
Net cash provided (used) - All activities	$	21,660,009
Cash and cash equivalents at beginning of year		33,110,734
Cash and cash equivalents at end of year	$	54,770,742
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$	24,414,851
Equity in common cash		30,270,109
Money market fund		85,782
Cash and cash equivalents at end of year	$	54,770,742
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$	(12,122,949)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest (nonprogram) and investment income		(1,115,569)
Depreciation		440,076
Pension Expense		(957,477)
Net increase (decrease) in fair value of investments		(1,941,172)
Changes in assets and liabilities:		
Amounts due from MSF and tribal gaming revenue receivable		23,237,450
Loans receivable (program loans)		2,002,705
Collateral Deposit		12,917
Other assets		261,581
Accounts payable and other liabilities		6,398,134
Net cash provided (used) by operating activities	$	16,215,696
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loans converted to equity		1,198,341
Increase/(decrease) in fair value of investments		(1,154,388)
Net noncash provided (used) by investing, capital, and financing activities	$	43,952

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

Note 1 Significant Accounting Policies

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

a. Reporting Entity

Article VII, Section 28 of the Michigan Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created in April 1999 by a 10-year contract (interlocal agreement, as amended) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund (MSF). Article VI of the interlocal agreement provides for the automatic renewal of this initial 10-year term for two renewal periods of five years each. In April 2014, this interlocal agreement was automatically renewed for another five years. MEDC is a separate legal entity created to promote economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents. Under the terms of the agreement, the governance of MEDC resides in an Executive Committee of 20 members appointed to eight-year, staggered terms by the Governor.

MEDC is a discretely presented component unit of the financial reporting entity of the State of Michigan because the primary government appoints the governing board of MEDC and there is a potential for MEDC to provide specific financial benefits to, or impose specific financial burdens on, the State.

b. Financial Statement Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB).

MEDC follows the business-type activities reporting requirements of GASB, which provide for a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

MEDC's operations are financed and operated in a manner similar to private business enterprises, i.e., where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

c. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the economic resources measurement focus and the accrual basis of accounting as provided by GAAP applicable to governments. 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.

d. Financial Data

The MSF Board of Directors entered into an interlocal agreement with a local unit of government to create MEDC. MEDC came into existence on April 5, 1999. In accordance with the terms of the agreement, substantial assets, liabilities, and fund balances of MSF were transferred to MEDC on May 1, 1999. All revenues received by MSF from tribal gaming, private activity bond (PAB) issuance fees, and Michigan Economic Growth Authority and Brownfield fees are transferred to MEDC on a monthly basis. This interlocal agreement also detailed all of MSF's State classified employees to MEDC. State appropriations available to MSF for this purpose are also made available to MEDC, as needed.

MEDC financial statements primarily present the following:

(1) Cash and Cash Equivalents: The amount reported as "Cash and cash equivalents at end of year" on the statement of cash flows is equal to the total of the amounts reported on the statement of net position for the line items entitled "Cash," "Equity in common cash," and "Money market fund."

(2) Amounts Due From MSF: Amounts due from MSF include the tribal gaming revenue.

(3) Investments: MEDC reports investments in the money market fund, corporate securities, equities, and exchange-traded funds (ETFs) at fair value and venture capital investments using cost-based measures unless fair value is readily determinable.

(4) Loans Receivable: Loans receivable are reported net of allowance for losses.

(5) Capital Assets: Capital assets, which mainly include a building, furniture, and equipment, are reported at historical cost, net of depreciation.

(6) Current Liabilities: Current liabilities primarily include accounts payable established for program and administrative expenses and the current portion of compensated absences.

(7) Long-Term Liabilities: Long-term liabilities include compensated absences (employees' unused sick, banked, and annual leave payable when employees terminate employment) and net pension liability.

(8) Operating Revenues: Operating revenues include revenues from restricted sources, amounts available to MEDC from State appropriations, tribal gaming revenue, and investment earnings. Also included in operating revenues are tribal gaming and fees collected by MSF and transferred to MEDC for PAB issuance, the Michigan Economic Growth Authority, and Brownfield programs during the fiscal year.

(9) Operating Expenses: Operating expenses include expenses related to program grants funded by State appropriations transferred to MEDC and MEDC nonappropriated funds. Also included in operating expenses are administrative expenses and loan loss provisions and other write-off expenses

(10) Deferred outflows/Inflows of Resources: In additions to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. MEDC has deferred outflows related to pensions. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. MEDC has deferred inflows related to pensions.

Note 2 <u>Accounting Changes and Restatements</u>

During fiscal year 2015, MEDC implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27.* As a result, the financial statements now include a net pension liability for our unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. The effects of applying this standard are disclosed in Note 8. As a result of implementing this statement, the MEDC restated its beginning net position by ($13,486,918) to $117,171,454.

Note 3 <u>Deposits and Investments</u>

a. <u>Deposits</u>

Deposits held by MEDC at September 30, 2015, were as follows:

Equity in common cash	$30,270,109
Checking account	256,976
Money market accounts	24,513,419
Total deposits	$50,040,505

<u>Custodial Credit Risk</u>: Governmental accounting standards require disclosures related to custodial credit risk for deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, MEDC's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in MEDC's name.

Deposits included in MEDC's bank accounts (without recognition of outstanding checks or deposits in transit) were $25,992,557 at September 30, 2015. Of that amount, $106,882 at September 30, 2015, was uninsured and uncollateralized. There were deposits of $24,457,216 collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent but not in MEDC's name. MEDC has no policy for controlling custodial credit risk.

MEDC's deposits included in the State of Michigan's equity in common cash are managed by the State Treasurer. The State Treasurer's policy requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2015, 99.93% of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

b. <u>Investments</u>

MEDC's investment policy allows investments in the following investment types:

(1) Securities issued or guaranteed by the U.S. government or its agencies.

(2) Bonds or other obligations of any U.S. state or any local unit of government of any such state.

(3) Repurchase agreements fully collateralized by U.S. government securities.

(4) Corporate and bank debt including, but not limited to, commercial paper, banker's acceptances, and other short-term obligations.

(5) Corporate notes and bonds.

(6) Taxable bond funds.

(7) Money market mutual fund shares that offer daily purchase and redemption.

(8) Investment pools composed entirely of instruments that are legal for direct investment by the MEDC.

(9) Treasury Inflation Protected Securities (TIPS).

(10) Domestic and international equity mutual funds including exchange traded funds and publicly traded Real Estate Investment Trust securities.

MEDC investments in the money market fund, corporate securities, ETFs, and equities are reported at fair value. The fair value is determined by the investment custodian and provided to MEDC in monthly statements. MEDC investments in venture capital are generally reported at fair value as determined by MEDC's portfolio managers based on site visits, review of companies' available financial data/reports, and professional judgment.

MEDC makes grant and loan commitments as a part of its economic development mission. These commitments are paid from the proceeds of the investments held in short-term and long-term securities. The timing of cash required for program commitments is dependent upon the completion of projects, and MEDC attempts to match investment maturities with its cash flow needs to meet grant commitments. For this reason, investments have frequent turnover and the purchases, and proceeds from sales and maturities, of all investments are shown as a net balance on the statement of cash flows.

The following table shows the fair value of investments at September 30, 2015, by investment type and in total:

Investment Type	Fair Value
Money market fund	$ 85,782
Corporate securities	30,402,275
Equities	67,395
Mutual funds (ETFs)	14,347,394
Venture capital - Limited partnerships	2,066,745
Venture capital - Stocks	8,428,098
Total investments	$55,397,689

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

1) Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. MEDC does not have a policy regarding interest rate risk. As of September 30, 2015, the average maturities of investments exposed to interest rate risk were as follows:

		Investment Maturities	
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Money market fund	$ 85,782	$ 85,782	
Corporate securities	$ 30,402,275	$ 11,054,604	$ 19,347,671

2) Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, MEDC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of MEDC, and are held by either the counterparty or the counterparty's trust department or agent but not in MEDC's name.

As of September 30, 2015, MEDC's investments in corporate securities, mutual funds, equities, and venture capital stocks were not exposed to custodial credit risk because they are registered in MEDC's name and held by Fifth Third Bank. MEDC's investments in venture capital limited partnerships were excluded from custodial credit risk because they were not an investment security.

3) Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GAAP requires disclosures of the credit quality ratings of investments in debt securities. MEDC had the following policy for controlling credit risk of debt securities in fiscal year 2015. Short-term investments (less than one year) shall have a credit rating of not less than A-1/P-1 at the time of purchase and an underlying long-term credit quality of not less than BBB as rated by at least two of the following national rating agencies: Moody’s, Standard and Poor’s, or Fitch . Long-term investments shall have a credit rating equal to BBB or better at the time of purchase by at least two of the following national rating agencies: Moody’s, Standard and Poor’s, or Fitch. The overall average quality rating of the fixed income portfolio shall have a credit rating of A- or better.

The following table shows the credit quality ratings of investments in debt securities as of September 30, 2015:

		Credit Quality Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's Investors Service
Corporate Securities	$ 6,456,767	AA+	Aaa
	1,156,554	AA+	A1
	1,505,330	AA	Aa2
	1,258,870	AA	Aa3
	3,284,767	AA-	Aa3
	1,008,691	A+	A1
	2,095,187	A+	A2
	1,006,783	A	A1
	7,297,227	A	A2
	993,810	A	A3
	2,203,392	A-	A3
	1,123,497	BBB+	A3
	1,011,170	BBB+	Baa1
Mutual Funds (ETFs)	14,347,394	Unrated	Unrated
Money Market Funds	85,782	Unrated	Unrated
Total investments	$44,835,221		

4) Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2015, MEDC did not have any investments in foreign securities.

5) Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MEDC's investments with a single issuer. MEDC's investment policy limits investments in securities in a single issuer, other than those issued by the U.S. government or its agencies and in money market mutual funds, to a maximum of 5% of its total portfolio. MEDC's investment policy doesn't apply to program related investments. MEDC had investments in the following companies for more than 5% of MEDC's total investments at September 30, 2015:

Name of Issuer	Amount	Percentage of Investments
Freddie Mac	$4,864,992	8.8%

Note 4 Nonexchange Financial Guarantee

MEDC extended a nonexchange financial guarantee by entering into a collateral deposit contract during fiscal year 2012. The MEDC Executive Committee has the legal authority to enter into these types of transactions and to delegate authority for the administration of the contracts. MEDC has a contractual relationship with the lender that has extended credit to a borrower under a separate loan agreement.

Under the terms of the contract between MEDC and the lender, MEDC has guaranteed 100% of the loan amount for the length of the 10-year borrowing period. On a quarterly basis, MEDC reconciles its collateral deposit balance with the lender and collects any monies that are contractually owed back to MEDC. Based on information obtained by MEDC from the lender regarding the likelihood of default, MEDC did not recognize any liability for this deposit. MEDC has separate subordinated guarantee agreements with each of the borrower's owners, which provides MEDC with the right to recover its funds in the event of default. As of September 30, 2015, the guarantee amount outstanding for this collateral deposit guarantee was $355,545.

Note 5 Loans Receivable

Loans receivable held by MEDC as of September 30, 2015 consisted of the following:

Loan Category	Loans Receivable
Urban Land Assembly Fund loans	$ 5,057,473
Michigan Core Community Fund Program	5,553,721
Follow-On Fund	1,826,359
Other loans	344,621
Total	$ 12,782,174
Less: Allowance for uncollectible loans	(8,407,081)
Total loans receivable	$ 4,375,093

Loans included in the "Other loans" category are collateralized, for qualifying projects, on the basis of participating up to 50% with other public or private lenders. The current portion of loans receivable includes those payments expected to be received during the next fiscal year.

Note 6 Capital Assets

MEDC records its capital assets at cost and depreciates applicable capital assets over their useful lives using the straight-line depreciation method (30 years for building and improvement, 3 years for furniture and equipment).

Furniture and equipment are capitalized when the cost of individual items exceeds $5,000.

Capital asset activities for the fiscal year ended September 30, 2015 were as follows:

Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Intangibles	$ 100,000	$	$	$ 100,000
Total capital assets, not being depreciated	$ 100,000	$ -	$ -	$ 100,000
Building and improvement	$ 13,086,970	$	$	$ 13,086,970
Furniture	2,997,422			2,997,422
Non-information technology equipment	78,265			78,265
Information technology equipment	1,429,517			1,429,517
Capital assets (cost)	$ 17,592,174	$ -	$ -	$ 17,592,174
Less accumulated depreciation for:				
Building and improvement	$ (5,701,021)	$ (436,608)	$	$ (6,137,629)
Furniture	(2,997,422)			(2,997,422)
Non-information technology equipment	(78,265)			(78,265)
Information technology equipment	(1,383,550)	($3,468)		(1,387,017)
Total accumulated depreciation	$ (10,160,257)	$ (440,076)	$ -	$ (10,600,333)
Capital assets (net)	$ 7,531,916	$ (440,076)	$ -	$ 7,091,841

Note 7 Long-Term Liabilities

Long-term liabilities are accrued when incurred. The following table summarizes compensated absences and net pension liabilities of MEDC for the fiscal year ended September 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 2,303,558	$ 822,999	$ 954,620	$ 2,171,938	$ 1,108,465
Net Pension Liability	$15,381,211	$ -	$1,553,012	$13,828,199	$ -

Note 8 Pension Plans and Other Postemployment

Benefits Defined Benefit Plan

Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

Benefits Provided

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010, established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012

On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.

- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.

- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012, and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5% times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of inmates.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

Survivor Benefit

Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to $6,000.

<u>Pension Payment Options</u>

When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100%, 75% or 50% of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

Regular Pension - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

50% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

Post Retirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977 and 1987. Beginning October 1, 1988, a 3% non-compounding increase, up to a maximum of $25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8% annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3% increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987, are not eligible for the supplemental payment.

Contributions

Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2015, the component unit's contribution rate was 27.5% of the defined benefit employee wages and 24.2% of the defined contribution employee wages. The MEDC's contribution to SERS for the fiscal year ending September 30, 2015 was $2,520,211.

Actuarial Assumptions

The MEDC's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	3.5%
Projected Salary Increases	3.5 – 12.5%, including wage inflation at 3.5%
Investment Rate of Return	8%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of $300 for those eligible

Mortality rates were based on RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 projections scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

Asset Allocation

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8%
International Equity Pools	16.0	6.1
Alternative Investment Pools	18.0	8.5
Real Estate and Infrastructure Pools	10.0	5.3
Fixed Income Pools	10.5	1.5
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
TOTAL	100.0 %	

* Rate of return does not include 2.5% inflation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability. This discount rate was based on the long term expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability

At September 30, 2015, the MEDC reported a liability of $13,828,199 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The MEDC's proportion of the net pension liability was based on the MEDC's required pension contributions received by SERS during the measurement period October 1, 2013, through September 30, 2014, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2014, the MEDC's proportion was .269%.

Assumption changes, based on the adoption of the findings of the experience study covering the period October 1, 2007 through September 30, 2012, increased the computed liabilities.

Pension Liability Sensitivity

The following presents the MEDC's proportionate share of the net pension liability, in thousands, calculated using the discount rate of 8% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease 7.0%	Current Discount 8.0%	1% Increase 9.0%
Component Unit's proportionate share of the net pension liability	$ 17,992,910	$ 13,828,199	$ 10,245,157

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting www.michigan.gov/ors.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of

Resources Related to Pensions

For the year ended September 30, 2015, the MEDC recognized pension expense of $1,562,734. At September 30, 2015, the MEDC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 400,475	$ -
Net difference between projected and actual earnings on investments	-	1,621,922
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	6
Component Unit contributions subsequent to the measurement date	2,520,211	-
Total	$ 2,920,686	$ 1,621,928

Amounts reported as deferred outflows of resources related to pensions resulting from MEDC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	Pension Expense Amount
2016	$ (5,012)
2017	(405,481)
2018	(405,481)
2019	(405,479)

Defined Contribution Plan

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.

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. MEDC made $1,125,905 in contributions to the 401(a) retirement plan during fiscal year 2015 and was reimbursed approximately $410,000 of this amount from MSF.

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

For the State Employees' Defined Contribution Retirement Plan, MEDC is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. MEDC's contribution to the plan was $343,858 in fiscal year 2015.

Other Postemployment Benefits

Along with the defined contribution required amounts MEDC also contributed 46.95% toward other postemployment benefits for most State employees in FY15. MEDC non classified employees are not eligible for any other postemployment benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Required Supplementary Information – Pension Liability

Schedule of the MEDC's Proportionate Share of Net Pension Liability
State Employees' Retirement System
Last 10 years*

	2015
MEDC'S Proportion of the Net Pension Liability	.269 %
MEDC'S Proportionate Share of the Net Pension Liability	$ 13,828,199
MEDC'S Covered-Employee Payroll	$ 9,857,294
MEDC'S proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.28 %
Plan fiduciary net position as a percentage of the total pension liability	68.07 %

The amounts presented for each fiscal year were determined as of the prior fiscal year.

* This schedule will be expanded to include 10 years as information becomes available.

Schedule of MEDC's Contributions
State Employees' Retirement Plan
Last 10 Fiscal Years*

	2015
Statutorily Required Contribution	$2,520,211
Contributions in relation to the statutorily required contribution	$2,520,211
Contribution deficiency (excess)	-
MEDC's covered-employee payroll	$9,857,294
Contributions as a percentage of covered-employee payroll	25.57 %

* This schedule will be expanded to include 10 years as information becomes available.

Notes to Required Supplementary Information – Pension Liability

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedule of Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions are schedules that are required in implementing GASB Statement No. 68. The Schedule of the Proportionate Share of the Net Pension Liability represents in actuarial terms, the accrued liability less the market value of assets. The Schedule of Contributions is a comparison of the employer's contributions to the actuarially determined contributions.

The information presented in the Schedule of Contributions was used in the actuarial valuation for purposes of determining actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

Valuation:
Actuarially determined contribution amounts are calculated as of September 30, each year, which is 1 day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2015:

Actuarial Cost Method	Entry age, normal
Amortization Method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment Rate of Return	8% net of investment and administrative expenses
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2020 projection scale AA (set forward 2 years for men, with 81% of the male rates used at ages 80-113 and 107% of the female rates)

GLOSSARY

Glossary of Abbreviations and Terms

Exchange-traded fund (ETF)	Securities representing mutual funds that are traded like stocks on the exchanges.
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.
LARA	Michigan Department of Licensing and Regulatory Affairs
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.
MEDC	Michigan Economic Development Corporation
MLSIC	Michigan Life Science and Innovation Center
Modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
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.

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.