

State Building Authority of
the State of Michigan
(a blended component unit of
the State of Michigan)

Audited Financial Statements
and Other Supplementary Information

*Year Ended September 30, 2016
with Report of Independent Auditors*

State Building Authority of
the State of Michigan

Audited Financial Statements
and Other Supplementary Information

Year Ended September 30, 2016

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Report of Independent Auditors

Mr. Patrick Devlin, Chair, State Building Authority Board of Trustees
Mr. Doug A. Ringler, CPA, CIA, Auditor General, Office of the Auditor General

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the State Building Authority (Authority), a blended component unit of the State of Michigan, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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 above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and the Required Supplementary Information on pages 34 and 35 (Schedule of the Authority's Proportionate Share of Net Pension Liability, Schedule of the Authority's Contributions, and Notes to Required Supplementary Information) 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Building Authority's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the State Building Authority'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 State Building Authority's internal control over financial reporting and compliance.

Andrews Hooper Paulik PLC

Okemos, Michigan
December 16, 2016

Management's Discussion and Analysis

State Building Authority of the State of Michigan Management's Discussion and Analysis

September 30, 2016

This section of the annual financial report of the State Building Authority (the "Authority") presents our discussion and analysis of the Authority's financial activities for the fiscal year ended September 30, 2016. The Authority is a blended component unit of the State of Michigan (the "State"). Readers are encouraged to consider this information in conjunction with the accompanying financial statements and notes.

The State Building Authority was organized under P.A. 183 of 1964, as amended. The purpose of the Authority is to acquire, construct, furnish, equip, and renovate buildings and equipment for the use of the State, including public universities and community colleges. It is governed by a five-member Board of Trustees appointed by the governor, with advice and consent of the Senate.

The Authority is authorized to issue and sell bonds and notes for acquisition and construction of facilities and State equipment in an aggregate principal amount outstanding not to exceed \$2.7 billion. Not included in this limitation are bonds allocated for debt service reserves, bond issuance expenses, bond discounts, bond insurance premiums, and certain refunding bonds.

All bonds and commercial paper notes are limited obligations of the Authority and are not general obligations of the State or the Authority. The debt service on the bonds are payable from lease revenue paid by the State pursuant to the provisions of the leases.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements consist of 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Because the Authority is a blended component unit of the State of Michigan, all the statements presented in this discussion focus on the Authority, an individual part of the government, reporting only on that one component within the State of Michigan.

- The financial statements and management's discussion and analysis provide both long and short-term information about the Authority's overall financial status.
- Management's discussion and analysis provides a narrative overview of the financial statements from management's perspective.
- The basic financial statements provide information about the Authority's overall financial status.
- The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.

State Building Authority of the State of Michigan
Management's Discussion and Analysis

September 30, 2016

Condensed Financial Information

Fiscal year ended September 30	Governmental Activities	
	2016	2015
Total net position	\$ (161,919,222)	\$ (140,612,125)
Total assets	\$ 3,274,908,558	\$ 3,236,741,931
Deferred outflows of resources	\$ 15,151,012	\$ 16,006,302
Short-term debt	\$ 71,175,000	\$ 32,380,000
Long-term liabilities	\$ 3,202,441,271	\$ 3,170,985,581
Total liabilities	\$ 3,443,874,923	\$ 3,385,485,700
Deferred inflows of resources	\$ 8,103,869	\$ 7,874,658
Revenues:		
Program revenues, primarily lease revenue	\$ 133,061,457	\$ 68,683,031
General revenues, entirely investment earnings	\$ 10,086	\$ 11,955
Total revenues	\$ 133,071,543	\$ 68,694,986
Expenses and transfers to other funds	\$ 154,378,640	\$ 151,275,342
Change in net position	\$ (21,307,097)	\$ (82,580,356)

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority maintains two governmental funds.

State Building Authority of the State of Michigan
Management's Discussion and Analysis

September 30, 2016

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide an adjustment column to facilitate this comparison between governmental funds and the government-wide financial statements.

The basic governmental fund financial statements can be found on pages 10 and 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 33 of this report.

Financial Analysis of the Authority

Net position of the Authority decreased \$21,307,097 to an ending balance of \$(161,919,222). The decrease was due to the Authority's large new money and refunding bond transaction that closed August 24, 2016. The Authority issued \$665,150,000 of revenue and revenue refunding bonds. When completing its financial statements, the Authority is required to report one hundred percent of the liability but only the present value of the asset.

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported a combined ending fund balance of \$126,021,328, a decrease of \$35,518,808 in comparison with the prior year. This amount was comprised of debt service fund balance of \$187,927,328 and a fund balance deficit in the capital projects fund of \$61,906,000. This deficit has been and continues to be largely the result of the Authority's use of short-term debt to finance certain project costs in advance of bonding. This results in the Authority reporting no asset but reporting one hundred percent of the liability.

Long-Term Debt Activity

The Authority issued \$665,150,000 of revenue or revenue refunding bonds in the current year. Further information on long-term debt can be found in Note 5 of the financial statements.

State Building Authority of the State of Michigan
Management's Discussion and Analysis

September 30, 2016

Recent Events

On December 8, 2016, the Authority issued \$82,215,000 of commercial paper notes at an interest rate of .77% per annum maturing February 23, 2017.

There are no other known facts, decisions, or conditions in terms of events that occurred subsequent to September 30, 2016 through the date of this report that are expected to effect the Authority's financial position or results of operations.

Basic Financial Statements

State Building Authority of the State of Michigan
Statement of Net Position
September 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 63,408
Investments	216,817,087
Accrued interest receivable	1,036
Due from State of Michigan	878,426
Current portion of leases receivable	74,688,582
Project costs in progress	71,069,861
Total current assets	<u>363,518,400</u>
Noncurrent assets	
Leases receivable, net of current portion	<u>2,911,390,158</u>
Total assets	<u>3,274,908,558</u>
DEFERRED OUTFLOWS OF RESOURCES	
Losses on debt refunding issues	15,070,920
Deferred outflows related to pensions	<u>80,092</u>
Total assets and deferred outflows of resources	<u>\$ 3,290,059,570</u>
LIABILITIES	
Current liabilities	
Accounts payable and other liabilities	\$ 554,665
Due to State of Michigan	20,007,131
Accrued interest payable	62,626,856
Short-term debt	71,175,000
Current portion of long-term debt	87,070,000
Total current liabilities	<u>241,433,652</u>
Noncurrent liabilities	
Long-term debt, net of current portion	3,201,944,737
Net pension liability	<u>496,534</u>
Total liabilities	<u>3,443,874,923</u>
DEFERRED INFLOWS OF RESOURCES	
Gains on debt refunding issues	8,103,856
Deferred inflows related to pensions	<u>13</u>
Total liabilities and deferred inflows of resources	<u>3,451,978,792</u>
NET POSITION	
Unrestricted (deficit)	<u>\$ (161,919,222)</u>

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

State Building Authority of the State of Michigan
Statement of Activities
Year Ended September 30, 2016

	Governmental Activities
Expenses	
General government - administration	\$ 857,009
Interest on long-term debt	151,012,087
Debt issuance costs	2,509,544
Total expenses	154,378,640
Program revenues	
Charges for services:	
Lease revenue	133,017,288
Other revenue	44,169
Total program revenues	133,061,457
Net revenue (expense)	(21,317,183)
General revenues	
Unrestricted investment earnings	10,086
Change in net position	(21,307,097)
Net Position	
Beginning of year (deficit)	(140,612,125)
End of year (deficit)	\$ (161,919,222)

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

State Building Authority of the State of Michigan
Statement of Net Position and
Governmental Funds Balance Sheet
September 30, 2016

	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Current assets					
Cash	\$ -	\$ -	\$ -	\$ 63,408	\$ 63,408
Investments	187,077,547	29,739,540	216,817,087	-	216,817,087
Accrued interest receivable	924	112	1,036	-	1,036
Due from State of Michigan	878,426	-	878,426	-	878,426
Current portion of leases receivable	-	-	-	74,688,582	74,688,582
Project costs in progress	-	-	-	71,069,861	71,069,861
Total current assets	<u>187,956,897</u>	<u>29,739,652</u>	<u>217,696,549</u>	<u>145,821,851</u>	<u>363,518,400</u>
Noncurrent assets					
Leases receivable, net of current portion	-	-	-	2,911,390,158	2,911,390,158
Total assets	<u>187,956,897</u>	<u>29,739,652</u>	<u>217,696,549</u>	<u>3,057,212,009</u>	<u>3,274,908,558</u>
DEFERRED OUTFLOWS OF RESOURCES					
Losses on debt refunding issues	-	-	-	15,070,920	15,070,920
Deferred outflows related to pensions	-	-	-	80,092	80,092
Total assets and deferred outflows of resources	<u>\$ 187,956,897</u>	<u>\$ 29,739,652</u>	<u>\$ 217,696,549</u>	<u>\$ 3,072,363,021</u>	<u>\$ 3,290,059,570</u>
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	\$ 29,569	\$ 461,688	\$ 491,257	\$ 63,408	\$ 554,665
Due to State of Michigan	-	20,007,131	20,007,131	-	20,007,131
Accrued interest payable	-	1,833	1,833	62,625,023	62,626,856
Short-term debt	-	71,175,000	71,175,000	-	71,175,000
Current portion of long-term debt	-	-	-	87,070,000	87,070,000
Total current liabilities	<u>29,569</u>	<u>91,645,652</u>	<u>91,675,221</u>	<u>149,758,431</u>	<u>241,433,652</u>
Long-term liabilities					
Long-term debt, net of current portion	-	-	-	3,201,944,737	3,201,944,737
Net pension liability	-	-	-	496,534	496,534
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,202,441,271</u>	<u>3,202,441,271</u>
Total liabilities	<u>29,569</u>	<u>91,645,652</u>	<u>91,675,221</u>	<u>3,352,199,702</u>	<u>3,443,874,923</u>
DEFERRED INFLOWS OF RESOURCES					
Gains on debt refunding issues	-	-	-	8,103,856	8,103,856
Deferred inflows related to pensions	-	-	-	13	13
FUND BALANCES					
Restricted	187,927,328	-	187,927,328	(187,927,328)	-
Unassigned (deficit)	-	(61,906,000)	(61,906,000)	61,906,000	-
Total fund balances	<u>187,927,328</u>	<u>(61,906,000)</u>	<u>126,021,328</u>	<u>(126,021,328)</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 187,956,897</u>	<u>\$ 29,739,652</u>	<u>\$ 217,696,549</u>		
NET POSITION					
Unrestricted (deficit)				<u>\$ (161,919,222)</u>	<u>\$ (161,919,222)</u>

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

State Building Authority of the State of Michigan
Statement of Activities and
Governmental Funds Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2016

	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues					
Investment income	\$ 8,115	\$ 1,971	\$ 10,086	\$ -	\$ 10,086
Lease revenue	224,417,481	-	224,417,481	(91,400,193)	133,017,288
Other revenue	10	44,159	44,169	-	44,169
Total revenues	224,425,606	46,130	224,471,736	(91,400,193)	133,071,543
Expenditures / Expenses					
Current - general government	834,887	2,750	837,637	19,372	857,009
Capital outlay	-	112,820,617	112,820,617	(112,820,617)	-
Capital outlay reimbursed to State of Michigan	-	28,403,217	28,403,217	(28,403,217)	-
Debt service:					
Principal	108,777,970	-	108,777,970	(108,777,970)	-
Interest and fiscal charges	117,282,380	224,343	117,506,723	33,505,364	151,012,087
Debt issuance costs	2,183,113	326,431	2,509,544	-	2,509,544
Total expenditures / expenses	229,078,350	141,777,358	370,855,708	(216,477,068)	154,378,640
Excess of revenues over (under) expenditures / expenses	(4,652,744)	(141,731,228)	(146,383,972)	125,076,875	(21,307,097)
Other financing sources (uses)					
Long-term debt issued	-	89,955,000	89,955,000	(89,955,000)	-
Premiums on bonds issued	-	18,727,052	18,727,052	(18,727,052)	-
Refunding debt issued	575,195,000	-	575,195,000	(575,195,000)	-
Premiums on refunding debt	89,744,142	-	89,744,142	(89,744,142)	-
Discounts on refunding debt	(2,772,558)	-	(2,772,558)	2,772,558	-
Payment to refunding escrow agent	(659,983,472)	-	(659,983,472)	659,983,472	-
Transfers from other funds	476,736	61,900	538,636	(538,636)	-
Transfers to other funds	(61,900)	(476,736)	(538,636)	538,636	-
Total other financing sources (uses)	2,597,948	108,267,216	110,865,164	(110,865,164)	-
Excess of revenues and other sources over (under) expenditures/expenses and other uses/changes in net position	(2,054,796)	(33,464,012)	(35,518,808)	14,211,711	(21,307,097)
Fund balances / Net position					
Beginning of year (deficit)	189,982,124	(28,441,988)	161,540,136	(302,152,261)	(140,612,125)
End of year (deficit)	<u>\$ 187,927,328</u>	<u>\$ (61,906,000)</u>	<u>\$ 126,021,328</u>	<u>\$ (287,940,550)</u>	<u>\$ (161,919,222)</u>

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

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Note 1 **Summary of Significant Accounting Policies**

Reporting Entity

The accompanying financial statements report the financial position and results of operations of the State Building Authority (the "Authority"), a blended component unit of the State of Michigan (the "State"), as of and for the fiscal year ended September 30, 2016. The Authority's activity is reported as debt service and capital projects funds within the governmental funds in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. In accordance with accounting principles generally accepted in the United States of America, there are no other component units included in this financial report.

The Authority was organized under Act 183, P.A. 1964, as amended, and is governed by a Board of Trustees consisting of five members appointed by the Governor, with the advice and consent of the Senate. The mission of the Authority is to construct, acquire, improve, enlarge, and lease facilities and equipment for use by the State or any of its agencies, including public institutions of higher education (universities and community colleges).

The Authority is authorized to issue and sell bonds in an aggregate principal amount outstanding not to exceed \$2.7 billion, excluding refunding bonds. Not included in this limitation is the principal amount of bonds allocated to capitalized interest, debt service reserves, bond issuance expenses, including discounts and bond insurance premiums, and bonds issued to refund outstanding bonds. The Authority is also authorized to issue and sell commercial paper notes as a short-term funding source for capital outlay projects prior to bonding. All bonds and commercial paper are limited obligations of the Authority and are not general obligations of the State or the Authority. The bonds are payable solely from equipment and facility lease payments, investment earnings, insurance proceeds, undisbursed bond proceeds retained by the Authority on a bond issue-specific basis, and any other assets pledged by the Authority to the bondholders.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial information is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

The Authority follows the accounting rules promulgated by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements present only the State Building Authority. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its component units in conformity with accounting principles generally accepted in the United States of America.

The Authority reports two major governmental funds: a debt service fund and a capital projects fund.

These notes relate directly to the Authority; the *SOMCAFR* provides more thorough disclosures of the State's significant accounting policies.

Investments – Investments are stated at fair value. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool share.

Leases Receivable – Leases receivable represent amounts due from the State of Michigan for rent obligations, net of unearned income. No allowance for uncollectible amounts has been provided.

Project Costs in Progress – Project costs consist of capital costs incurred to date on various building projects. As the building projects are completed, the assets will be leased to the State of Michigan.

Deferred Outflows and Inflows of Resources – In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting as deferred outflows of resources. Deferred outflows of resources consist of deferred outflows related to the net pension liability and losses on bond refunding issues, which result from the difference between the carrying value of the refunded debt and its reacquisition price.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and thus, will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting as deferred inflows of resources. Deferred inflows of resources consist of deferred inflows related to the net pension liability and gains on bond refunding issues, which result from the difference between the carrying value of the refunded debt and its reacquisition price.

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Debt Issuance Costs – Debt issuance costs on bonds are expensed as incurred.

Federal Arbitrage Liability – Included in long-term debt is a provision for federal arbitrage rebate. Federal income tax regulations for certain debt issues require the Authority to rebate to the federal government the interest earned on invested debt proceeds in excess of interest paid. The Authority had no estimated liability as of September 30, 2016.

Long-Term Liabilities – Long-term liabilities are reported on the Authority's statement of net position, net of the applicable bond premiums and discounts, which are deferred and amortized over the life of the bonds using the effective interest method.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Lease Revenue – Lease payments are collected from the State of Michigan to satisfy the rent obligations under all of the project leases. Lease transactions are accounted for as direct financing leases whereby the present value of the future lease payments is recorded as a lease receivable using the interest rate implicit in the lease. Lease revenue is recognized as a constant percentage return on asset carrying values.

Other Revenue – Other revenue includes adjustments to prior year capital expenditures.

Fund Balances – Fund balances are classified into the following categories:

- a. Nonspendable fund balances comprise those amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- b. Restricted fund balances comprise those amounts constrained to be used for a specific purpose by the constitution, external resource providers, or enabling legislation.
- c. Committed fund balances comprise those amounts constrained by formal action of the government's highest level of decision-making authority.

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- d. Assigned fund balances comprise amounts that are constrained by the government's intent to use the fund balances for specific purposes, but are neither restricted nor committed.
- e. Unassigned fund balances are any amounts other than those described above and are available for any purpose. The unassigned classification is also used for fund balance deficits.

The Authority has no formal policy with regard to classifying expenditures among the various classifications. Thus, the default provision under GASB Statement No. 54 applies expenditures first to restricted resources, then to committed resources, then to assigned resources, and finally to unassigned resources.

Note 2 Investments

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

The Authority's investments are restricted by State statute to obligations of the State or U.S. government, obligations of which the principal and interest are guaranteed by the State or U.S. government, certificates of deposit of a financial institution, certain commercial paper, and repurchase agreements collateralized by U.S. government obligations and certain investment trusts. Certain other restrictions as to investments are contained in the trust indenture for each bond issue.

As of September 30, 2016, the Authority had no deposits and had investments totaling \$216,817,087, which were entirely in U.S. Treasury money market accounts. The Authority's investments comply with State statutes.

Applicable risk disclosures under GASB Statement No. 40 for the Authority's investments are as follows.

Credit risk – Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Authority's bond indentures restrict the Authority to investments rated in the highest category by Standard & Poor's and Moody's Investors Service. The Authority's investments in 2a7-like money market accounts with U.S. Bank are rated AAAM by Standard & Poor's and Aaa-mf by Moody's Investors Service.

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Because investments in money market accounts are not evidenced by securities that exist in physical or book entry form, they are not exposed to custodial credit risk.

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Fair Value Measurements – The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Authority’s investments meet the criteria to be valued at cost.

Note 3 Leases Receivable

The Authority’s leasing operations consist of leasing of facilities and equipment for use by the State of Michigan or any of its agencies under direct financing arrangements expiring in various years through July 31, 2051.

Following is a summary of the components of the Authority’s net investment in direct financing leases as of September 30, 2016:

Total minimum lease payments to be received	\$ 5,111,671,569
Less – Unearned income	<u>2,125,592,829</u>
Net leases receivable	<u><u>\$ 2,986,078,740</u></u>
Statement of Net Position classification:	
Current portion of leases receivable	\$ 74,688,582
Leases receivable, net of current portion	<u>2,911,390,158</u>
Total	<u><u>\$ 2,986,078,740</u></u>

Minimum lease payments to be received from the State of Michigan as of September 30, 2016, are as follows:

2017	\$ 216,686,736
2018	216,686,736
2019	216,686,736
2020	216,686,736
2021	216,686,736
2022 through 2051	<u>4,028,237,889</u>
Total	<u><u>\$ 5,111,671,569</u></u>

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Note 4 Short-Term Debt - Notes Payable

The Authority issues commercial paper notes to fund capital projects prior to bonding. The notes are recorded at par at the time of issuance and are issued in conjunction with a bank letter of credit that has a maximum stated amount of \$241,643,835, of which not more than \$225,000,000 may be drawn with respect to the payment of principal of notes, and of which not more than \$16,643,835 may be drawn with respect to the payment of up to 270 days of interest on the notes. The notes have a maximum interest rate of 10 percent per annum. Issuance costs are capitalized as part of project costs. The interest rate on commercial paper notes outstanding as of September 30, 2016 was .94 percent.

Short-term debt activity for the fiscal year ended September 30, 2016 was as follows (in thousands):

Beginning balance	\$ 32,380
Additions	135,283
Reductions	<u>(96,488)</u>
Ending balance	<u><u>\$ 71,175</u></u>

Note 5 Long-Term Liabilities

Each series of bonds and related lease contracts are financing transactions under which the Authority issues revenue bonds for the purpose of constructing or acquiring facilities and/or equipment for lease to the State or institutions of higher education. Each issue of bonds is secured by and payable from the rentals. Rentals may only be used for payment of the bonds to which such lease pertains and may not be used for the payment of any other issue of bonds or any other unrelated obligation of the Authority. Each such lease (prior to execution) has been approved by the State Administrative Board; by resolution of the Board of Trustees of the Authority; and, where required, by the governing body of the appropriate institution of higher education. The lease payments for all of the facilities and equipment are appropriated as an annual operating cost by the State.

The bonds represent limited obligations of the Authority and do not constitute general obligations of the Authority or general obligations or debts of the State or of any of the institutions of higher education within the meaning of any constitutional or statutory limitation. The Authority has no taxing power. The bonds are payable from lease revenue to be paid by the State pursuant to the provisions of the leases and certain other funds and revenue provided for in the trust indenture.

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Outstanding Debt

Changes in long-term debt (excluding defeased bonds) for the fiscal year ended September 30, 2016 are as follows (in thousands):

	Date Sold	# of Projects	Original Amount Issued	Average Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds Payable (in thousands)									
2006 Series I A:									
Serial	09/06/06	n/a	\$ 438,300	4.804%	\$ 289,360	\$ -	\$ (289,360)	\$ -	\$ -
Capital appreciation	09/06/06	n/a	395,331	4.804%	306,425	13,113	(313,090)	6,448	6,460
2007 Series I Multi-Modal	12/19/07	15	96,500	Variable	32,485	-	-	32,485	-
2008 Series I Revenue and Refunding									
	11/20/08	17	192,275	6.083%	95,805	-	(54,500)	41,305	825
2009 Series I Refunding	08/19/09	n/a	222,080	4.884%	161,635	-	(10,985)	150,650	11,535
2009 Series II Refunding	12/10/09	10	113,480	4.989%	100,605	-	(3,030)	97,575	3,150
2011 Series IA Revenue and Refunding									
	07/28/11	13	409,550	5.162%	386,280	-	(6,760)	379,520	7,105
2011 Series IB Taxable Revenue Bonds									
	07/28/11	n/a	12,195	5.694%	10,920	-	(440)	10,480	450
2011 Series IIA Revenue and Refunding									
	07/28/11	6	180,700	5.227%	177,005	-	(1,240)	175,765	1,280
2011 Series IIB Refunding (variable)									
	07/28/11	n/a	45,790	Variable	45,290	-	-	45,290	-
2013 Series IA Revenue and Revenue Refunding									
	07/18/13	13	531,290	4.760%	511,885	-	(65,435)	446,450	56,265
2015 Series I Revenue and Refunding Bonds									
	08/31/15	15	989,340	3.859%	989,340	-	(8,730)	980,610	-
2016 Series I Revenue and Refunding Bonds									
	08/24/16	10	665,150	3.062%	-	665,150	-	665,150	-
Total revenue bonds payable			<u>\$ 4,291,981</u>		3,107,035	678,263	(753,570)	3,031,728	<u>\$ 87,070</u>
Accrued compensated absences					23	-	(2)	21	
Arbitrage payable					-	-	-	-	
Add (deduct) deferred amounts:									
For issuance discounts					(764)	(2,773)	214	(3,323)	
For issuance premiums					166,096	108,471	(13,980)	260,587	
Total long-term debt					<u>\$ 3,272,390</u>	<u>\$ 783,961</u>	<u>\$ (767,338)</u>	<u>\$ 3,289,013</u>	
Current portion								\$ 87,070	
Long-term portion								3,201,943	
								<u>\$ 3,289,013</u>	

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The 2007 Series I Multi-Modal variable bonds and the 2011 Variable Rate Revenue Refunding Bonds, Series IIB currently bear interest at a weekly rate as determined through remarketing. Given the variable nature of the bonds, there are no stated annual debt service requirements. However, for purposes of the future debt service requirements that follow, estimated interest was computed using the weekly rate as of September 30, 2016 of .86%. Associated annual lease rentals are fully pledged for the payment of bond principal and interest on outstanding bonds. Both the 2007 Series I and 2011 Series IIB bonds are subject to optional redemption by the Authority in any rate mode and have a nominal final maturity of October 15, 2042 and October 15, 2043, respectively.

The 2007 Series I and the 2011 Series IIB are both subject to optional tender by the bond holders at a purchase price of 100% of the principal plus accrued interest to the date of purchase. Optional tenders are secured by each issue's direct-pay Letter of Credit Agreement, for the principal and interest, calculated up to the maximum interest rate of 12% for 47 and 49 days, respectively. As of September 30, 2016, the Letter of Credit Agreements had a stated expiration date of December 15, 2017.

As of September 30, 2016, the 2006 Series IA capital appreciation bonds have an ultimate maturity value of \$6.4 million with final maturity on October 15, 2016; the accreted value as of September 30, 2016 is \$6.4 million. For purposes of the following schedule, the accreted maturity of the capital appreciation bonds is shown in the principal maturities column.

The 2016 Series I Revenue and Refunding bonds were issued during the fiscal year ended September 30, 2016 in the amount of \$665,150,000 with a portion used to refund the 2006 Series IA bonds and certain bonds within the 2008 Series I. The new bonds bear interest from 2.50% to 5.00% and are due in annual installments ranging from \$0 to \$78,685,000 through October 15, 2051. The amount deposited with the escrow agent is less than the net carrying amount of the refunded bonds by \$5,919,938. This amount is reflected as a deferred inflow of resources, gain on refunding issues, and is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The new bond issue will reduce debt service payments for the Authority by \$186,936,482, with an economic gain of \$152,837,634.

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Debt Service Requirements

The annual requirements to service the outstanding debt are as follows (in thousands):

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 87,070	\$ 133,249	\$ 220,319
2018	95,805	140,069	235,874
2019	82,015	135,773	217,788
2020	80,590	131,798	212,388
2021	84,600	127,738	212,338
2022-2026	477,245	570,189	1,047,434
2027-2031	656,075	431,027	1,087,102
2032-2036	654,865	262,202	917,067
2037-2041	467,595	136,567	604,162
2042-2046	224,340	58,628	282,968
2047-2051	115,675	14,332	130,007
2052	5,865	147	6,012
	<u>\$ 3,031,740</u>	<u>\$ 2,141,719</u>	<u>\$ 5,173,459</u>

Interest to maturity for the bonds may be significantly less than the amount shown in the above table because many of the bonds (i.e., sinking fund bonds) will be called prior to their final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to specific projects and any excess borrowing and accrued investment earnings are restricted to projects and debt service on the related bonds.

Defeased Debt

The Authority has defeased certain bond issues by placing refunding bond proceeds in an irrevocable trust to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements.

The following table summarizes the defeased bonds outstanding as of September 30, 2016 (in thousands) with the expected final payment date:

2006 Series IA	\$ 929,120	October 15, 2016
2008 Series I	139,965	October 15, 2018
Total	<u>\$ 1,069,085</u>	

The 2006 Series IA bonds include both serial and capital appreciation bonds. The capital appreciation bonds are stated above at the accreted value of \$619.7 million on the call date.

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Note 6 Net Position Deficit and Capital Projects Fund Balance Deficit

The Authority is reporting a net position deficit balance of \$161,919,222 as of September 30, 2016. The increase in the net position deficit in fiscal year 2016 relates to new bond issue liabilities recorded during the year that are greater than the related net present value of lease payments receivable recorded. The capital projects fund is reporting a fund balance deficit of \$61,906,000. The capital projects fund balance deficit resulted because the issuance of commercial paper represents a fund liability and the corresponding construction projects are not reported as assets in the fund.

Note 7 General Information about the Pension Plan

A. 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.

B. 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.

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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.

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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.

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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.

Pension Payment Options

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.

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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

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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.

C. 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 2016, the Authority's contribution rate was 26.1% of the defined benefit employee wages and 22.8% of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ending September 30, 2016 was \$62,250.

D. Actuarial Assumptions

The Authority's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, 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

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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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.9%
Private equity pools	18.0	9.2%
International equity pools	16.0	7.2%
Fixed income pools	10.5	0.9%
Real estate and infrastructure pools	10.0	4.3%
Absolute return pools	15.5	6.0%
Short term investment pools	2.0	0.0%
Total	<u>100.0%</u>	

*Long-term rate of returns are net of administrative expenses and 2.1% inflation.

E. 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.

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

F. Net Pension Liability

As of September 30, 2016, the Authority reported a liability of \$496,534 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the State Building Authority's required pension contributions received by SERS during the measurement period October 1, 2014, through September 30, 2015, relative to the total required employer contributions from all of SERS' participating employers. As of September 30, 2015, the Authority's proportion was 0.009 percent.

Assumption changes, based on the adoption of the findings of the experience study covering the period October 1, 2007 through September 30, 2012, have been adopted for use in the pension annual valuations beginning with the September 30, 2014 valuation.

G. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability, 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 is 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%
State Building Authority's proportionate share of net pension liability	\$634,532	\$496,534	\$377,627

H. 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).

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the Authority recognized pension expense of \$83,581. As of September 30, 2016, the Authority 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
	<hr/>	<hr/>
Changes of assumptions	\$ -	\$ -
Net difference between projected and actual earnings on investments	4,378	-
Differences between expected and actual experience	1,401	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	12,063	13
Authority contributions subsequent to the measurement date	62,250	-
Total	<hr/> <u>\$ 80,092</u>	<hr/> <u>\$ 13</u>

Amounts reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. 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 (Credit) Amount
	<hr/>
2017	\$ 11,140
2018	(2,310)
2019	(2,310)
2020	11,309

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Note 8 Other Postemployment Benefits

The Authority participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Authority was required to contribute 20.63% of payroll for the employer cost of other postemployment benefits in fiscal year 2016 and 22.76% in fiscal year 2015. The State pays 80% of the cost of health insurance for retired employees who were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance dependent upon years of service. Employees hired on or after January 1, 2012 will not be eligible for retiree health insurance coverage but receive a personal health care fund where they will contribute up to 2% of their compensation in a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old and \$1,000 for participants who are less than 60 years old at termination.

Note 9 Adjustments

Following is an explanation of the adjustments between the governmental funds balance sheet and the statement of net position, which reconciles fund balances to net position:

Fund balances	\$ 126,021,328
Adjustments:	
Leases receivable are not current financial resources and therefore are not reported in the governmental funds	2,986,078,740
Accrued payroll liabilities are paid by the State and not reported in the governmental funds until after reimbursement	21,675
Excess cash revenue in the administrative fund deferred as a current liability to recognize and offset expenditures in the new fiscal year	41,733
Project costs financed by short-term borrowings are temporarily capitalized for net position until lease agreements are executed	71,069,861
Pension related assets are not reported in the governmental funds (and are reported as deferred outflow of resources)	80,092

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Adjustments (continued):

Bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	(3,031,728,714)
Premiums on bonds are reported as other financing sources in the governmental funds, whereas they are capitalized and amortized for net position (and added to bonds payable)	(260,586,135)
Discounts on bonds are reported as other financing uses in the governmental funds, whereas they are capitalized and amortized for net position (and netted against bonds payable)	3,321,709
Gains on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position (and reported as deferred inflows of resources)	(8,103,856)
Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net position (and reported as deferred outflows of resources)	15,070,920
Accrued compensated absences and arbitrage payable are not recorded by governmental funds	(21,597)
Accrued interest payable on bonds is not recorded by governmental funds	(62,625,023)
Pension related liabilities are not reported in the governmental funds (and are reported as a noncurrent liability or in deferred inflows of resources)	(496,547)
Accrued payroll liabilities are paid by the State and not reported in the governmental funds until after reimbursement	(21,675)
Excess cash revenue in the administrative fund deferred as a current liability to recognize and offset expenditures in the new fiscal year	(41,733)
Net position	<u><u>\$ (161,919,222)</u></u>

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Following is an explanation of the adjustments between the governmental funds statement of revenues, expenditures, and changes in fund balances and the statement of activities, which reconciles the net change in fund balances to the change in net position:

Net change in fund balances \$ (35,518,808)

Adjustments:

Amounts received for lease payments include both principal and interest for purposes of governmental funds. For the statement of activities, the principal portions are eliminated with that portion of the receipts that pertain to interest being recognized as lease revenues. (91,400,193)

Repayment of bond and note principal is an expenditure in the funds, but the repayment reduces long-term liabilities for net position 108,777,970

Construction costs are recorded as expenditures in the funds, but increase leases receivable or project costs in progress for net position 141,223,834

The issuance of bonds provides current financial resources and bond discounts and premiums are a use or source of current financial resources, respectively. These transactions do not affect net position and therefore are eliminated:

Bond and refunding bond proceeds	(665,150,000)
Premium on bonds	(108,471,194)
Discounts on bonds	2,772,558
Payment to refunding escrow agent	659,983,472
Portion of escrow payments applicable to accrued interest	(7,191,573)

Accrued interest expense on bonds, accretion of capital appreciation bonds, and the amortization of discounts, premiums, and loss on refunding are not recorded by governmental funds but are reported under interest and fiscal charges for purposes of net position:

Change in accrued interest expense	(17,831,739)
Accretion of capital appreciation bonds	(13,123,805)
Amortization of premiums on bonds	5,110,613
Amortization of discounts on bonds	(33,931)
Amortization of gain on refunding	601,241
Amortization of loss on refunding	(849,580)
Unamortized premiums, discounts, gains, and losses on refunded debt	(186,590)

Pension liability and expenditures are not recorded by governmental funds but are reported for purposes of determining net position (17,601)

Estimated liability for accrued compensated absences is not recorded by governmental funds but is reported for purposes of determining net position (1,771)

Change in net position \$ (21,307,097)

State Building Authority of the State of Michigan

Notes to Financial Statements

September 30, 2016

Note 10 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan provides insurance coverage for the Authority.

Note 11 Adoption of a New Standard

As of September 30, 2016, the Authority prospectively applied GASB Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Note 12 Subsequent Events

On December 8, 2016, the Authority issued \$82,215,000 of commercial paper notes at an interest rate of .77% per annum maturing February 23, 2017.

Note 13 Upcoming Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement resulted from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. The requirements of this statement will be effective for fiscal years beginning after June 15, 2017. The Authority is currently evaluating the impact this statement will have on the financial statements when adopted; however, the Authority believes that the impact will be material.

Required Supplementary Information

State Building Authority of the State of Michigan

Required Supplementary Information

State Employees' Retirement System

Schedule of the Authority's Proportionate Share of Net Pension Liability (in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Authority's proportionate share of the net pension liability:		
As a percentage	0.0090%	0.0083%
Amount	\$ 496	\$ 425
Authority's covered-employee payroll	\$ 246	\$ 223
Authority's proportionate share of the net pension liability, as a percentage of its covered-employee payroll	201.63%	190.58%
Plan fiduciary net position as a percentage of total pension liability	66.11%	68.07%

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

Schedule of the Authority's Contributions (in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 62	\$ 67
Contributions in relation to the statutorily required contributions	62	67
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 239	\$ 246
Contributions as a percentage of covered-employee payroll	25.94%	27.24%

State Building Authority of the State of Michigan

Notes to Required Supplementary Information

September 30, 2016

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 2016

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	22 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	2.50%
Salary Increases	3.50% wage inflation
Investment Rate of Return	8.00% net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements up to 2015 using projection scale BB. For active members, 50% of the table rates were used for males and females.

Other Supplementary Information

State Building Authority of the State of Michigan
Commercial Paper Program, Series 7
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ -	\$ 18,271,765	\$ 18,271,765
Accrued interest receivable	-	43	43
Total assets	\$ -	\$ 18,271,808	\$ 18,271,808
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ 461,688	\$ 461,688
Due to State of Michigan	-	17,704,938	17,704,938
Accrued interest payable	-	1,833	1,833
Short-term debt	-	71,175,000	71,175,000
Total liabilities	-	89,343,459	89,343,459
PROJECT EQUITY (DEFICIT)			
Unassigned (deficit)	-	(71,071,651)	(71,071,651)
Total liabilities and project equity (deficit)	\$ -	\$ 18,271,808	\$ 18,271,808
 OUTSTANDING DEBT (short-term)			 \$ 71,175,000

State Building Authority of the State of Michigan
Commercial Paper Program, Series 7
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ -	\$ 966	\$ 966
Lease revenue	-	-	-
Other revenue	-	-	-
Total revenues	-	966	966
Expenditures			
Current - general government	-	-	-
Capital outlay	-	98,398,947	98,398,947
Capital outlay reimbursed to State of Michigan	-	27,237,430	27,237,430
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	224,343	224,343
Total expenditures	-	125,860,720	125,860,720
Revenue over (under) expenditures	-	(125,859,754)	(125,859,754)
Other financing sources (uses)			
Transfers from other funds	-	-	-
Transfers to other funds	-	95,756,155	95,756,155
Total other financing sources (uses)	-	95,756,155	95,756,155
Net change in project equity	-	(30,103,599)	(30,103,599)
Project equity (deficit)			
Beginning of year	-	(40,968,052)	(40,968,052)
End of year	\$ -	\$ (71,071,651)	\$ (71,071,651)

State Building Authority of the State of Michigan
2006 Revenue Refunding Bonds, Series IA and IB
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 11,774,835	\$ -	\$ 11,774,835
Accrued interest receivable	60	-	60
	Total assets	\$ -	\$ 11,774,895
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
	Total liabilities	-	-
PROJECT EQUITY			
Restricted	11,774,895	-	11,774,895
	Total liabilities and project equity	\$ -	\$ 11,774,895

OUTSTANDING DEBT (short term)* \$ 6,460,000

* The outstanding debt for 2006 Series IA includes the remainder of the fully accreted value related to its capital appreciation bonds. This is to mature on October 15, 2016 and therefore considered a short term liability. It is reflected as such in the crosswalk and government-wide financial statements.

State Building Authority of the State of Michigan
2006 Revenue Refunding Bonds, Series IA and IB
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 846	\$ -	\$ 846
Lease revenue	22,999,433	-	22,999,433
Other revenue	-	-	-
Total revenues	23,000,279	-	23,000,279
Expenditures			
Current - general government	54,747	-	54,747
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	3,175,000	-	3,175,000
Interest and fiscal charges	14,468,000	-	14,468,000
Total expenditures	17,697,747	-	17,697,747
Revenue over (under) expenditures	5,302,532	-	5,302,532
Other financing sources (uses)			
Payment to refunding escrow agent	(6,677,306)	-	(6,677,306)
Transfers from other funds	-	-	-
Transfers to other funds	(3,620,000)	-	(3,620,000)
Total other financing sources (uses)	(10,297,306)	-	(10,297,306)
Net change in project equity	(4,994,774)	-	(4,994,774)
Project equity			
Beginning of year	16,769,669	-	16,769,669
End of year	<u>\$ 11,774,895</u>	<u>\$ -</u>	<u>\$ 11,774,895</u>

State Building Authority of the State of Michigan
2007 Multi-Modal Revenue Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 235,236	\$ -	\$ 235,236
Accrued interest receivable	12	-	12
Total assets	\$ 235,248	\$ -	\$ 235,248
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ 12,268	\$ -	\$ 12,268
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	12,268	-	12,268
PROJECT EQUITY			
Restricted	222,980	-	222,980
Total liabilities and project equity	\$ 235,248	\$ -	\$ 235,248
OUTSTANDING DEBT (long-term)			\$ 32,485,000

State Building Authority of the State of Michigan
2007 Multi-Modal Revenue Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 134	\$ -	\$ 134
Lease revenue	6,237,000	-	6,237,000
Other revenue	-	-	-
Total revenues	6,237,134	-	6,237,134
Expenditures			
Current - general government	152,910	-	152,910
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	64,883	-	64,883
Total expenditures	217,793	-	217,793
Revenue over (under) expenditures	6,019,341	-	6,019,341
Other financing sources (uses)			
Payment to refunding escrow agent	(51,107)	-	(51,107)
Transfers from other funds	-	-	-
Transfers to other funds	(11,410,000)	-	(11,410,000)
Total other financing sources (uses)	(11,461,107)	-	(11,461,107)
Net change in project equity	(5,441,766)	-	(5,441,766)
Project equity			
Beginning of year	5,664,746	-	5,664,746
End of year	<u>\$ 222,980</u>	<u>\$ -</u>	<u>\$ 222,980</u>

State Building Authority of the State of Michigan
2008 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 4,699,542	\$ -	\$ 4,699,542
Accrued interest receivable	32	-	32
Total assets	\$ 4,699,574	\$ -	\$ 4,699,574
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	-	-
PROJECT EQUITY			
Restricted	4,699,574	-	4,699,574
Total liabilities and project equity	\$ 4,699,574	\$ -	\$ 4,699,574
OUTSTANDING DEBT (long-term)			\$ 41,305,000

State Building Authority of the State of Michigan
2008 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 325	\$ -	\$ 325
Lease revenue	7,120,405	-	7,120,405
Other revenue	-	-	-
Total revenues	7,120,730	-	7,120,730
Expenditures			
Current - general government	29,999	-	29,999
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	2,035,000	-	2,035,000
Interest and fiscal charges	5,498,000	-	5,498,000
Total expenditures	7,562,999	-	7,562,999
Revenue over (under) expenditures	(442,269)	-	(442,269)
Other financing sources (uses)			
Payment to refunding escrow agent	(3,621)	-	(3,621)
Transfers from other funds	-	-	-
Transfers to other funds	(345,000)	-	(345,000)
Total other financing sources (uses)	(348,621)	-	(348,621)
Net change in project equity	(790,890)	-	(790,890)
Project equity			
Beginning of year	5,490,464	-	5,490,464
End of year	<u>\$ 4,699,574</u>	<u>\$ -</u>	<u>\$ 4,699,574</u>

State Building Authority of the State of Michigan
2009 Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 20,175,200	\$ -	\$ 20,175,200
Accrued interest receivable	71	-	71
Total assets	\$ 20,175,271	\$ -	\$ 20,175,271
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	-	-
PROJECT EQUITY			
Restricted	20,175,271	-	20,175,271
Total liabilities and project equity	\$ 20,175,271	\$ -	\$ 20,175,271
OUTSTANDING DEBT (long-term)			\$ 150,650,000

State Building Authority of the State of Michigan
2009 Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 547	\$ -	\$ 547
Lease revenue	3,153,000	-	3,153,000
Other revenue	-	-	-
Total revenues	3,153,547	-	3,153,547
Expenditures			
Current - general government	29,218	-	29,218
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	10,985,000	-	10,985,000
Interest and fiscal charges	8,014,870	-	8,014,870
Total expenditures	19,029,088	-	19,029,088
Revenue over (under) expenditures	(15,875,541)	-	(15,875,541)
Other financing sources (uses)			
Payment to refunding escrow agent	(4,652)	-	(4,652)
Transfers from other funds	-	-	-
Transfers to other funds	24,295,000	-	24,295,000
Total other financing sources (uses)	24,290,348	-	24,290,348
Net change in project equity	8,414,807	-	8,414,807
Project equity			
Beginning of year	11,760,464	-	11,760,464
End of year	<u>\$ 20,175,271</u>	<u>\$ -</u>	<u>\$ 20,175,271</u>

State Building Authority of the State of Michigan
2009 Revenue Refunding Bonds, Series II
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 7,341,961	\$ -	\$ 7,341,961
Accrued interest receivable	34	-	34
Total assets	\$ 7,341,995	\$ -	\$ 7,341,995
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	-	-
PROJECT EQUITY			
Restricted	7,341,995	-	7,341,995
Total liabilities and project equity	\$ 7,341,995	\$ -	\$ 7,341,995
OUTSTANDING DEBT (long-term)			\$ 97,575,000

State Building Authority of the State of Michigan
2009 Revenue Refunding Bonds, Series II
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 289	\$ -	\$ 289
Lease revenue	6,653,016	-	6,653,016
Other revenue	-	-	-
Total revenues	6,653,305	-	6,653,305
Expenditures			
Current - general government	17,376	-	17,376
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	3,030,000	-	3,030,000
Interest and fiscal charges	4,863,513	-	4,863,513
Total expenditures	7,910,889	-	7,910,889
Revenue over (under) expenditures	(1,257,584)	-	(1,257,584)
Other financing sources (uses)			
Payment to refunding escrow agent	(4,118)	-	(4,118)
Transfers from other funds	-	-	-
Transfers to other funds	1,238,000	-	1,238,000
Total other financing sources (uses)	1,233,882	-	1,233,882
Net change in project equity	(23,702)	-	(23,702)
Project equity			
Beginning of year	7,365,697	-	7,365,697
End of year	<u>\$ 7,341,995</u>	<u>\$ -</u>	<u>\$ 7,341,995</u>

State Building Authority of the State of Michigan
2011 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 21,109,053	\$ 1	\$ 21,109,054
Accrued interest receivable	89	-	89
Total assets	\$ 21,109,142	\$ 1	\$ 21,109,143
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	-	-
PROJECT EQUITY			
Restricted	21,109,142	1	21,109,143
Total liabilities and project equity	\$ 21,109,142	\$ 1	\$ 21,109,143
OUTSTANDING DEBT (long-term)			\$ 390,000,000

State Building Authority of the State of Michigan
2011 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 751	\$ 28	\$ 779
Lease revenue	20,464,675	-	20,464,675
Other revenue	-	-	-
Total revenues	20,465,426	28	20,465,454
Expenditures			
Current - general government	64,945	-	64,945
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	7,200,000	-	7,200,000
Interest and fiscal charges	20,484,875	-	20,484,875
Total expenditures	27,749,820	-	27,749,820
Revenue over (under) expenditures	(7,284,394)	28	(7,284,366)
Other financing sources (uses)			
Transfers from other funds	-	-	-
Transfers to other funds	2,606,100	(436,139)	2,169,961
Total other financing sources (uses)	2,606,100	(436,139)	2,169,961
Net change in project equity	(4,678,294)	(436,111)	(5,114,405)
Project equity			
Beginning of year	25,787,436	436,112	26,223,548
End of year	\$ 21,109,142	\$ 1	\$ 21,109,143

State Building Authority of the State of Michigan
2011 Revenue and Revenue Refunding Bonds, Series II
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 6,236,353	\$ -	\$ 6,236,353
Accrued interest receivable	28	-	28
Total assets	\$ 6,236,381	\$ -	\$ 6,236,381
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ 17,239	\$ -	\$ 17,239
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	17,239	-	17,239
PROJECT EQUITY			
Restricted	6,219,142	-	6,219,142
Total liabilities and project equity	\$ 6,236,381	\$ -	\$ 6,236,381
OUTSTANDING DEBT (long-term)			\$ 221,055,000

State Building Authority of the State of Michigan
2011 Revenue and Revenue Refunding Bonds, Series II
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 220	\$ -	\$ 220
Lease revenue	8,762,004	-	8,762,004
Other revenue	-	-	-
Total revenues	8,762,224	-	8,762,224
Expenditures			
Current - general government	236,343	-	236,343
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	1,240,000	-	1,240,000
Interest and fiscal charges	9,075,057	-	9,075,057
Total expenditures	10,551,400	-	10,551,400
Revenue over (under) expenditures	(1,789,176)	-	(1,789,176)
Other financing sources (uses)			
Payment to refunding escrow agent	(9)	-	(9)
Transfers from other funds	-	-	-
Transfers to other funds	1,104,912	-	1,104,912
Total other financing sources (uses)	1,104,903	-	1,104,903
Net change in project equity	(684,273)	-	(684,273)
Project equity			
Beginning of year	6,903,415	-	6,903,415
End of year	<u>\$ 6,219,142</u>	<u>\$ -</u>	<u>\$ 6,219,142</u>

State Building Authority of the State of Michigan
2013 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 86,627,276	\$ -	\$ 86,627,276
Accrued interest receivable	440	-	440
Total assets	\$ 86,627,716	\$ -	\$ 86,627,716
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	-	-
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	-	-
PROJECT EQUITY			
Restricted	86,627,716	-	86,627,716
Total liabilities and project equity	\$ 86,627,716	\$ -	\$ 86,627,716
OUTSTANDING DEBT (long-term)			\$ 446,450,000

State Building Authority of the State of Michigan
2013 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 3,946	\$ -	\$ 3,946
Lease revenue	88,215,206	-	88,215,206
Other revenue	-	-	-
Total revenues	88,219,152	-	88,219,152
Expenditures			
Current - general government	91,892	-	91,892
Capital outlay	-	-	-
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	65,435,000	-	65,435,000
Interest and fiscal charges	24,297,513	-	24,297,513
Total expenditures	89,824,405	-	89,824,405
Revenue over (under) expenditures	(1,605,253)	-	(1,605,253)
Other financing sources (uses)			
Payment to refunding escrow agent	(83,662)	-	(83,662)
Transfers from other funds	79,322	-	79,322
Transfers to other funds	(11,160,912)	(79,322)	(11,240,234)
Total other financing sources (uses)	(11,165,252)	(79,322)	(11,244,574)
Net change in project equity	(12,770,505)	(79,322)	(12,849,827)
Project equity			
Beginning of year	99,398,221	79,322	99,477,543
End of year	<u>\$ 86,627,716</u>	<u>\$ -</u>	<u>\$ 86,627,716</u>

State Building Authority of the State of Michigan
2015 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 24,378,840	\$ 5,791,275	\$ 30,170,115
Accrued interest receivable	131	30	161
Total assets	\$ 24,378,971	\$ 5,791,305	\$ 30,170,276
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ 62	\$ -	\$ 62
Due to State of Michigan	-	652,518	652,518
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	62	652,518	652,580
PROJECT EQUITY			
Restricted	24,378,909	5,138,787	29,517,696
Total liabilities and project equity	\$ 24,378,971	\$ 5,791,305	\$ 30,170,276
 OUTSTANDING DEBT (long-term)			\$ 980,610,000

State Building Authority of the State of Michigan
2015 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 1,030	\$ 922	\$ 1,952
Lease revenue	51,764,148	-	51,764,148
Other revenue	10	44,159	44,169
	<hr/>	<hr/>	<hr/>
Total revenues	51,765,188	45,081	51,810,269
Expenditures			
Current - general government	157,457	-	157,457
Capital outlay	-	6,909,315	6,909,315
Capital outlay reimbursed to State of Michigan	-	-	-
Debt service:			
Principal	8,730,000	-	8,730,000
Interest and fiscal charges	30,515,669	-	30,515,669
Debt issuance costs	10,561	2,203	12,764
	<hr/>	<hr/>	<hr/>
Total expenditures	39,413,687	6,911,518	46,325,205
Revenue over (under) expenditures	12,351,501	(6,866,437)	5,485,064
Other financing sources (uses)			
Payment to refunding escrow agent	(10)	-	(10)
Transfers from other funds	5,406	-	5,406
Transfers to other funds	1,180,000	(5,406)	1,174,594
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	1,185,396	(5,406)	1,179,990
Net change in project equity	13,536,897	(6,871,843)	6,665,054
Project equity			
Beginning of year	<hr/>	<hr/>	<hr/>
	10,842,012	12,010,630	22,852,642
End of year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 24,378,909	\$ 5,138,787	\$ 29,517,696

State Building Authority of the State of Michigan
2016 Revenue and Revenue Refunding Bonds, Series I
Project Balance Sheet
September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
ASSETS			
Current assets			
Investments	\$ 4,499,251	\$ 5,676,499	\$ 10,175,750
Accrued interest receivable	27	39	66
Due from State of Michigan	878,426	-	878,426
Total assets	\$ 5,377,704	\$ 5,676,538	\$ 11,054,242
LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	\$ -	\$ -	\$ -
Due to State of Michigan	-	1,649,675	1,649,675
Accrued interest payable	-	-	-
Short-term debt	-	-	-
Total liabilities	-	1,649,675	1,649,675
PROJECT EQUITY			
Restricted	5,377,704	4,026,863	9,404,567
Total liabilities and project equity	\$ 5,377,704	\$ 5,676,538	\$ 11,054,242
 OUTSTANDING DEBT (long-term)			\$ 665,150,000

State Building Authority of the State of Michigan
2016 Revenue and Revenue Refunding Bonds, Series I
Schedule of Project Revenue, Expenditures
and Changes in Project Equity
Year Ended September 30, 2016

	Debt Service Activities	Capital Projects Activities	Total
Revenues			
Investment income	\$ 27	\$ 55	\$ 82
Lease revenue	9,048,594	-	9,048,594
Other revenue	-	-	-
Total revenues	9,048,621	55	9,048,676
Expenditures			
Current - general government	-	2,750	2,750
Capital outlay	-	7,512,355	7,512,355
Capital outlay reimbursed to State of Michigan	-	1,165,787	1,165,787
Debt service:			
Principal	6,947,970	-	6,947,970
Interest and fiscal charges	-	-	-
Debt issuance costs	2,172,552	324,228	2,496,780
Total expenditures	9,120,522	9,005,120	18,125,642
Revenue over (under) expenditures	(71,901)	(9,005,065)	(9,076,966)
Other financing sources (uses)			
Long-term debt issued	-	89,955,000	89,955,000
Premiums on bonds issued	-	18,727,052	18,727,052
Refunding debt issued	575,195,000	-	575,195,000
Premiums on refunding debt	89,744,142	-	89,744,142
Discounts on refunding debt	(2,772,558)	-	(2,772,558)
Payment to refunding escrow agent	(653,158,987)	-	(653,158,987)
Transfers from other funds	392,008	61,900	453,908
Transfers to other funds	(3,950,000)	(95,712,024)	(99,662,024)
Total other financing sources (uses)	5,449,605	13,031,928	18,481,533
Net change in project equity	5,377,704	4,026,863	9,404,567
Project equity			
Beginning of year	-	-	-
End of year	<u>\$ 5,377,704</u>	<u>\$ 4,026,863</u>	<u>\$ 9,404,567</u>

State Building Authority of the State of Michigan
Schedule of Bonds Payable at Par
Including Mandatory Redemption Provisions

September 30, 2016
(in Thousands)

Year Ending September 30	2016 I Revenue & Refunding Bonds	2015 I Revenue & Refunding Bonds	2013 IA Refunding Bonds	2011 IIB Refunding Bonds	2011 IIA Refunding Bonds	2011 IB Taxable Bonds
2017	\$ -	\$ -	\$ 56,265	\$ -	\$ 1,280	\$ 450
2018	25,000	-	11,720	-	1,320	465
2019	19,770	32,055	2,885	-	1,360	480
2020	16,780	33,695	3,035	-	1,400	500
2021	17,625	35,425	3,185	-	1,455	520
2022	26,315	26,465	3,345	-	1,510	540
2023	10,030	27,820	22,335	-	1,570	565
2024	10,550	17,985	23,450	-	1,640	600
2025	11,090	18,905	24,625	-	12,685	640
2026	11,660	19,875	25,855	-	13,320	680
2027	12,255	35,460	27,145	-	13,990	720
2028	-	40,760	28,505	-	14,690	765
2029	12,560	62,345	29,930	-	15,425	810
2030	14,390	68,555	26,205	-	210	860
2031	36,880	72,640	5,185	-	65	915
2032	32,280	84,100	5,440	-	65	970
2033	48,990	69,790	5,715	-	65	-
2034	49,365	62,810	5,970	-	1,740	-
2035	54,745	22,665	6,120	-	17,575	-
2036	73,685	-	6,420	-	15,600	-
2037	54,910	42,275	6,760	-	23,990	-
2038	25,990	39,255	7,125	14,180	-	-
2039	34,405	17,585	7,550	100	14,200	-
2040	5,050	6,450	7,945	15,070	-	-
2041	4,470	6,530	8,365	1,780	14,200	-
2042	-	19,440	8,805	1,070	6,410	-
2043	4,580	10,350	16,370	7,890	-	-
2044	4,810	16,540	9,850	5,200	-	-
2045	5,045	15,850	10,395	-	-	-
2046	5,300	17,060	12,955	-	-	-
2047	5,565	11,925	13,830	-	-	-
2048	5,845	12,175	13,165	-	-	-
2049	6,135	15,805	-	-	-	-
2050	6,445	13,055	-	-	-	-
2051	6,765	4,965	-	-	-	-
2052	5,865	-	-	-	-	-
Total	<u>\$ 665,150</u>	<u>\$ 980,610</u>	<u>\$ 446,450</u>	<u>\$ 45,290</u>	<u>\$ 175,765</u>	<u>\$ 10,480</u>

* Bonds Payable for 2006 Series IA includes the fully accreted values related to its capital appreciation bonds.

2011 IA Refunding Bonds	2009 II Revenue Bonds	2009 I Refunding	2008 I Refunding	2007 I Multi-Modal	2006 I A Refunding *	Total
\$ 7,105	\$ 3,150	\$ 11,535	\$ 825	\$ -	\$ 6,460	\$ 87,070
7,455	3,280	12,110	34,455	-	-	95,805
7,830	3,385	12,720	1,530	-	-	82,015
8,220	3,555	13,350	55	-	-	80,590
8,630	3,690	14,015	55	-	-	84,600
10,500	3,870	15,105	-	-	-	87,650
10,825	4,395	15,765	-	-	-	93,305
11,360	4,620	16,595	-	-	-	86,800
11,925	4,850	17,425	-	-	-	102,145
12,510	5,105	18,340	-	-	-	107,345
22,435	11,675	3,690	-	-	-	127,370
16,700	8,795	-	-	-	-	110,215
15,325	8,065	-	-	-	-	144,460
17,210	7,030	-	-	-	-	134,460
18,025	5,860	-	-	-	-	139,570
16,135	6,140	-	-	-	-	145,130
10,240	6,630	-	-	-	-	141,430
11,395	3,480	-	-	-	-	134,760
13,465	-	-	-	-	-	114,570
5,525	-	-	-	17,745	-	118,975
5,780	-	-	410	14,740	-	148,865
65	-	-	2,345	-	-	88,960
70	-	-	1,630	-	-	75,540
40,220	-	-	-	-	-	74,735
44,150	-	-	-	-	-	79,495
20,330	-	-	-	-	-	56,055
-	-	-	-	-	-	39,190
15,180	-	-	-	-	-	51,580
9,240	-	-	-	-	-	40,530
1,670	-	-	-	-	-	36,985
-	-	-	-	-	-	31,320
-	-	-	-	-	-	31,185
-	-	-	-	-	-	21,940
-	-	-	-	-	-	19,500
-	-	-	-	-	-	11,730
-	-	-	-	-	-	5,865
\$ 379,520	\$ 97,575	\$ 150,650	\$ 41,305	\$ 32,485	\$ 6,460	\$ 3,031,740

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Mr. Patrick Devlin, Chair, State Building Authority Board of Trustees
Mr. Doug A. Ringler, CPA, CIA, Auditor General, Office of the Auditor General

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the State Building Authority (the "Authority"), a blended component unit of the State of Michigan, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Andrews Hooper Pavlik PLC

Okemos, Michigan
December 16, 2016