



Michigan Finance Authority

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

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2017

NICK A. KHOURI
Chairperson of Board

MARY G. MARTIN, C.P.A.
Executive Director



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INTRODUCTORY SECTION

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

December 13, 2017

The Honorable Rick Snyder, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *Michigan Finance Authority Comprehensive Annual Financial Report* (CAFR) for the fiscal year ended September 30, 2017.

INTRODUCTION TO THE REPORT

Responsibility: The Department of Treasury, Bureau of State and Authority Finance, Michigan Finance Authority prepares the CAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the CAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the primary government. All disclosures necessary to enable the reader to gain a reasonable understanding of the Authority's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, we have prepared the financial statements contained in the CAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The Authority also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports.

Internal Control Structure: The Michigan Finance Authority is responsible for the overall operation of the Authority's central accounting system and for establishing and maintaining the Authority's internal control structure. The objective of the internal control structure is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The cost of the Authority's internal control structure was designed to not exceed the benefits derived from maintaining such controls.

Act 431 requires each principal department to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

Internal Auditors: Pursuant to Executive Order 2007-31, the Office of Internal Audit Services (OIAS) provides internal audit services to departments and agencies. OIAS performs periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, OIAS also reviews department and agency management's processes for establishing, monitoring, and reporting on internal controls; advises department and agency management on internal control matters; and assists department and agency management with investigations of alleged fraud or other irregularities.

Independent Auditors: Plante & Moran, PLLC is the principal auditor of the CAFR. The purpose of Plante Moran's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2017 are free of material misstatements. Plante Moran concluded that the Basic Financial Statements for the fiscal year ended September 30, 2017 are fairly presented in accordance with GAAP and issued unmodified opinions.

Legislative Auditors: The Office of the Auditor General (OAG) has the responsibility, as stated in Article 4, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the Michigan Compiled Laws contain specific audit requirements in conformance with the constitutional mandate. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act Amendments of 1996. Pursuant to Michigan Public Act 233 of 2012, an annual statewide single audit will be conducted for applicable State departments, agencies and component unit authorities, and will result in a separately issued audit report.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A immediately follows the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

Reporting Entity: The financial reporting entity of the Authority includes all of the funds of the primary government. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities.

Budgetary Reporting and Control: All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the direction and supervision of the State Treasurer. The Authority is governed by its own Board of Directors, composed of seven members, consisting of the State Treasurer as chair and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority.

The Authority completes an annual appropriation process for its three operating funds as part of the overall budgetary process of the primary government. Revenues and expenditures are projected including calculated fund balances for budgetary purposes in accordance with GAAP. Public Act 431, as amended, prohibits the Authority from budgeting an ending fund balance deficit. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the Authority to also implement such changes in the budgetary process.

Compliance with the final updated budget for the Authority's operating funds is demonstrated through the publication of the Statewide Authorization and Dispositions report that provides line item appropriation details and the legal level of budgetary control for the Authority's appropriated funds.

The Authority's governmental funds are not annually appropriated. Enabling legislation provides spending authorization for the Authority to pay scheduled debt service payments and to engage the services of financial advisors, legal counsel, placement agents, underwriters, appraisers and other advisors, consultants, and fiduciaries as may be necessary to effectuate the purposes of the acts. The Michigan Finance Authority bond official statements establish authorization to pay applicable administrative expenditures.

Long-Term Financial Planning: The Authority's long-term financial planning is tied to the Authority's mission to provide its qualifying customers with effective, low-cost options to finance the acquisition, construction, improvement, or alteration of land, facilities, equipment, the payment of project costs, or to refinance existing debt. Each bond transaction is reviewed and approved separately by the Authority's Board of Directors. The Authority's fee structure is designed to cover the costs of each bond transaction executed. The Michigan Guaranty Agency projects revenues and expenditures on a monthly basis. Also the Guaranty Agency annually calculates and updates the fees that will be assessed to defaulted borrower accounts which covers the internal costs of collecting those funds.

MAJOR INITIATIVES

The Michigan Finance Authority continues to carry out its mission in assisting school districts, cities and local governments, hospitals, colleges, and access to higher education in fiscal year 2017 by issuing 26 bond and note deals totaling \$1.5 billion in order to provide current and future funding for the Authority's various programs.

School Districts: Through its Local Municipalities Subfund and Public School Academy Facilities Fund, the Authority issued \$348.2 million of bonds, \$13.9 million of tax anticipation notes, and \$420.5 million of state aid notes for the purpose of assisting school districts and public school academies with specialized financing needs for capital improvements and other projects.

Cities and Local Governments: Through its Local Municipalities Subfund and its State Revolving Subfund, the Authority issued \$316.1 million of bonds for the purpose of assisting cities, townships, and local municipalities with specialized financing needs.

Hospitals: Through its Healthcare Finance Fund, the Authority issued \$301.5 million of bonds for the purpose of assisting eligible healthcare providers and facilities with financing for capital improvements.

Colleges: Through its Higher Education Facilities Fund, the Authority issued \$123.5 million of bonds for the purpose of assisting eligible higher education institutions within the state with financing for capital improvements.

Michigan Guaranty Agency: Through the Michigan Guaranty Agency, a fiduciary fund, the Authority paid \$102.8 million of claims during fiscal year 2017 to qualified lenders for loans guaranteed under the Federal Family Education Loan Program made to qualified students and parents of qualified students in Michigan.

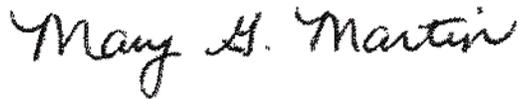
AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Michigan Finance Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the second consecutive year that the Michigan Finance Authority received this award. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements: The preparation of this report requires the collective efforts of the management and staff of the Michigan Finance Authority, as well as the management and staff of the Authority's independent auditors, Plante Moran. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed MFA to establish its position as a leader in quality and efficiency for financial reporting.

Sincerely,



Mary G. Martin
Director, Bureau of State and Authority Finance



Nick A. Khouri
State Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

Michigan Finance Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

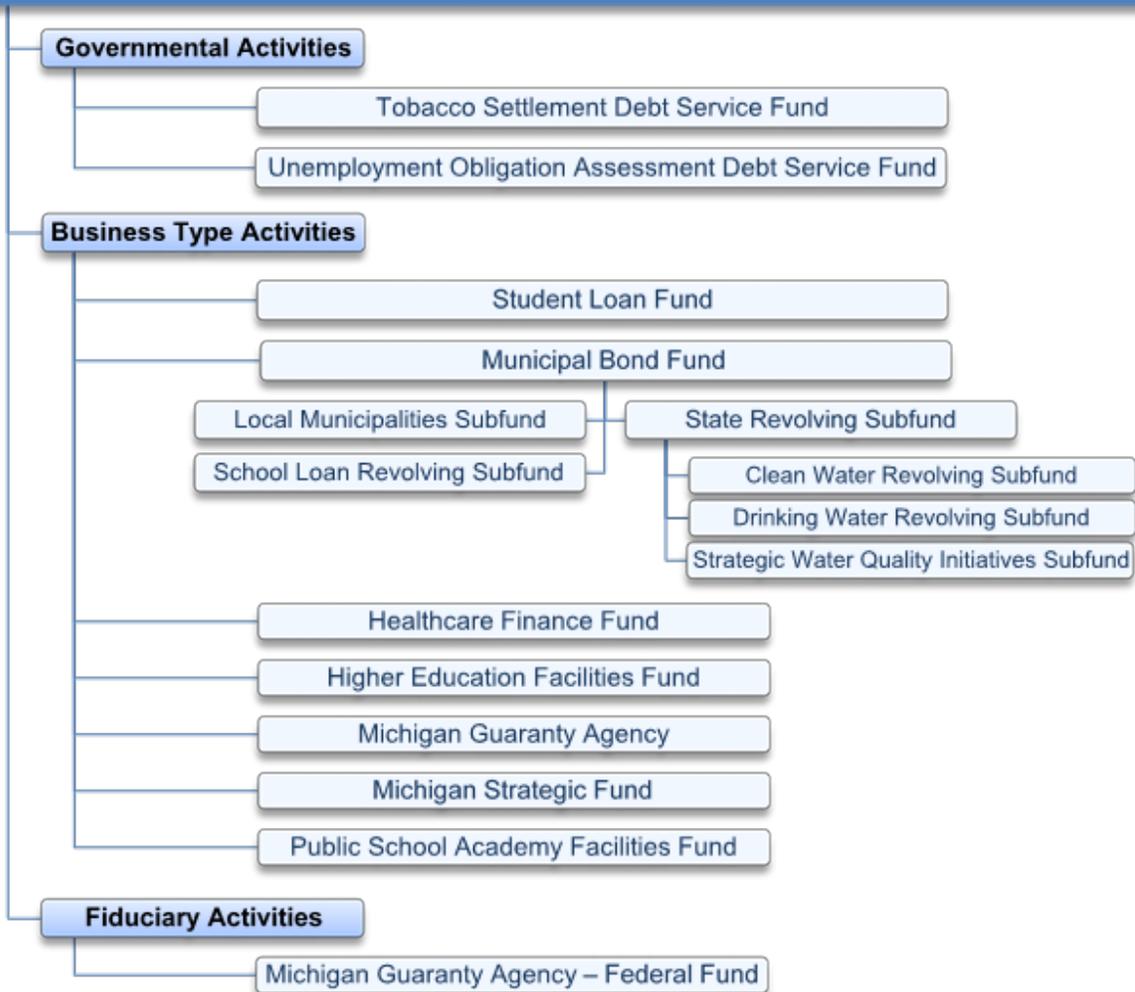
Christopher P. Morill

Executive Director/CEO

MICHIGAN FINANCE AUTHORITY

(A Component Unit of the State of Michigan)

ORGANIZATIONAL STRUCTURE





PRINCIPAL OFFICIALS
MICHIGAN FINANCE AUTHORITY BOARD OF DIRECTORS
(As of September 30, 2017)

Nick A. Khouri
State Treasurer
Chair of Board, Michigan Finance Authority

Eric Scorsone
Senior Deputy State Treasurer
State Treasurer Representative, Michigan Finance Authority

Mary G. Martin
Director, Bureau of State and Authority Finance
Executive Director, Michigan Finance Authority

Board Members

Bill Beekman
Vice President and Secretary
of the Board of Trustees
Michigan State University
Term expires: 9/30/2021

Charlotte P. Edwards
Retired Banker
Term expires: 9/30/2018

Donald H. Gilmer
Retired Administrator
Kalamazoo County
Term expires: 9/30/2020

Timothy A. Hoffman
Executive Director of Regulatory Affairs
Consumers Energy
Term expires: 9/30/2018

Travis D. Jones
Senior Vice President and CFO
GreenStone Farm Credit Services
Term expires: 9/30/2021

JulieAnn Karkosak
Vice President and General Counsel
Toyota Boshoku America, Inc.
Term expires: 9/30/2018

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Michigan Finance 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Finance Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2017 and the respective changes in its financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the Michigan Finance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2017 or the changes in its financial position and the changes in its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and corresponding note, schedule of the Michigan Finance Authority's proportionate share of net pension liability, schedule of the Michigan Finance Authority's contributions, and note to required supplemental information - pension liability 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, which 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 supplemental 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 opinions on the financial statements that collectively comprise the Michigan Finance Authority's basic financial statements. The accompanying supplemental financial statements and supplemental financial schedules and introductory section and statistical sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Finance Authority

The supplemental financial statements and supplemental financial schedules are the responsibility of management and were derived from and relate 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 supplemental financial statements and supplemental financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the Michigan Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Finance Authority's internal control over financial reporting and compliance.

Plante & Morse, PLLC

December 13, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2017. Please read it with the Authority's financial statements, which follow this section.

HIGHLIGHTS

- The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.
- The Authority's total net long-term secured debt as of September 30, 2017 was \$9,064.8 million, a decrease of \$490.3 million from the prior year. The decrease represents the net difference between new issuances, debt service payments, and refundings of debt. In addition, the Authority also has \$8,962.3 million of conduit debt obligations outstanding as of September 30, 2017. The Authority has limited obligation for the conduit debt, and therefore does not record a liability in the financial statements. During the fiscal year ended September 30, 2017, the Authority issued new and refunding debt of \$1.5 billion, of which \$455.8 million was conduit debt obligations and, therefore, was not recorded as debt of the Authority (Notes 8 and 9).
- More detailed information regarding the government-wide, fund-level, and long-term debt activities can be found beginning on page 21.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of four components: 1) government-wide financial statements, 2) governmental and proprietary fund financial statements, 3) fiduciary fund financial statements, and 4) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities report information on all non-fiduciary activities of the Authority using the accrual basis of accounting. Authority activities are distinguished between governmental and business-type activities. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.
- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function.

Fund Financial Statements

The fund financial statements provide detailed information about the major individual funds and aggregate information about non-major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to account for specific sources of funding and spending for a particular purpose. The Authority's funds are divided into three categories (governmental, proprietary, and fiduciary) and use different accounting methodologies, which are driven by required governmental accounting standards and pronouncements:

- *Governmental Funds* - The Authority's major governmental funds include the General Fund, the Tobacco Settlement Debt Service Fund, and the Unemployment Obligation Assessment Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which focuses on near-term (generally 60 days) inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.
- *Proprietary Funds* - The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. These funds are reported using the full accrual basis of accounting, which provides short-term and long-term financial information about the activities of the Authority.
- *Fiduciary Fund* - The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using the full accrual basis of accounting. The government-wide financial statements exclude fiduciary fund activities and balances because these assets do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust.

Additional Required Supplementary Information

Following the basic financial statements is additional required supplementary information that explains and supports the information in the Authority's General Fund financial statements as well as provides additional information on the Authority's share of the State's net pension liability and related Authority annual contribution activity. The required supplementary information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end as well as includes information on the Authority's employee pension contributions compared to overall payroll costs.

Other Supplemental Information

Other supplemental information provided at the end of the report includes combining financial statements and schedules for each non-major proprietary fund and each subfund of major proprietary funds. These funds are combined, by fund type, and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The following statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of September 30, 2017 and September 30, 2016:

STATEMENT OF NET POSITION

As of September 30

(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2017	2016	2017	2016	2017	2016
Total current assets	\$ 768.6	\$ 687.9	\$ 4,008.8	\$ 3,665.8	\$ 4,777.4	\$ 4,353.7
Total non-current assets	592.8	1,031.2	8,155.5	8,538.9	8,748.3	9,570.0
Total assets	<u>\$ 1,361.4</u>	<u>\$ 1,719.1</u>	<u>\$ 12,164.3</u>	<u>\$ 12,204.7</u>	<u>\$ 13,525.7</u>	<u>\$ 13,923.7</u>
Deferred outflows of resources	\$ 1.1	\$ 1.1	\$ 44.5	\$ 30.4	\$ 45.6	\$ 31.5
Total current liabilities	\$ 291.4	\$ 276.4	\$ 1,110.1	\$ 1,239.4	\$ 1,401.5	\$ 1,515.8
Total non-current liabilities	2,141.0	2,548.7	6,931.3	7,017.3	9,072.3	9,566.0
Total liabilities	<u>\$ 2,432.4</u>	<u>\$ 2,825.1</u>	<u>\$ 8,041.4</u>	<u>\$ 8,256.7</u>	<u>\$ 10,473.8</u>	<u>\$ 11,081.8</u>
Deferred inflows of resources	\$ 0.0	\$ 0.0	\$ 1.4	\$ 1.6	\$ 1.4	\$ 1.6
Net position:						
Restricted	\$ 0.0	\$ 0.0	\$ 4,021.8	\$ 3,843.4	\$ 4,021.8	\$ 3,843.4
Unrestricted	<u>(1,069.9)</u>	<u>(1,104.9)</u>	<u>144.2</u>	<u>133.4</u>	<u>(925.7)</u>	<u>(971.5)</u>
Total net position	<u>\$ (1,069.9)</u>	<u>\$ (1,104.9)</u>	<u>\$ 4,166.0</u>	<u>\$ 3,976.8</u>	<u>\$ 3,096.1</u>	<u>\$ 2,871.9</u>

The Authority's total current assets increased by \$423.7 million (9.7%) and total noncurrent assets decreased by \$821.7 million (8.6%) during the fiscal year 2017. The increase in total current assets was due primarily from the increased Cash & Cash Equivalents on hand in the Municipal Bond Fund – School Loan Revolving Subfund which came from borrowing school districts paying off outstanding loan balances. The decrease in total noncurrent assets was due primarily to a reduction in the Receivable from the State of Michigan from payments received from TED for Unemployment Obligation Assessment collections as well as a decrease in the School Loan Revolving Subfund from school districts paying off outstanding loan balances.

The governmental activities total current assets increased by \$80.7 million (11.7%) and total noncurrent assets decreased by \$438.4 million (42.5%). The increase in current assets was due to additional investments on hand in the Unemployment Obligation Assessment Debt Service Fund at the balance sheet date. The investments will be used for future debt service. The decrease in noncurrent assets was due to a decrease in the Receivable from the State of Michigan from payments received from TED for Unemployment Obligation Assessment collections.

The business-type activities total current assets increased by \$343.0 million (9.4%) primarily from the increased Cash & Cash Equivalents on hand in the Municipal Bond Fund – School Loan Revolving Subfund

Michigan Finance Authority

explained above as well as an increase in investments in the State Revolving Subfund. The business-type activities total noncurrent assets decreased by \$383.4 million (4.5%). The decrease in total noncurrent assets was primarily due to the decrease in the receivable from the State of Michigan from school districts paying off outstanding loan balances in the School Loan Revolving Subfund explained above.

The Authority's total current liabilities decreased by \$114.3 million (7.5%) and total noncurrent liabilities decreased by \$493.7 million (5.2%) during fiscal year 2017. This decrease in current and non-current liabilities was primarily caused by a decrease in the debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b.

The governmental activities total current liabilities increased by \$15.0 million (5.4%). This increase in total current liabilities was primarily caused by an increase in the current debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b. The governmental activities total noncurrent liabilities decreased by \$407.7 million (16.0%) primarily from using the funds received from the Department of Talent and Economic Development (TED) to pay down the Unemployment Obligation Assessment Revenue Bonds during the fiscal year.

The business-type activities total current liabilities decreased by \$129.3 million (10.4%). This decrease in current liabilities was primarily caused by decrease in the current debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b. The business-type activities total noncurrent liabilities decreased by \$86.0 million (1.2%) primarily from fulfilling mandatory and optional redemptions within the Student Loan Fund.

The Authority's net position in unrestricted net assets of negative \$925.7 million as of September 30, 2017 is the result of the Authority recording liabilities for the entire amount of outstanding bonds for its tobacco settlement bonds. The tobacco settlement bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts, however accounting principles preclude the Authority from recording the total anticipated receipts of these proceeds (Receivable – Tobacco Settlement Revenue) because the underlying economic events have not yet occurred for future years.

The Authority's net position in restricted net assets of \$4,021.8 million as of September 30, 2017 represents resources that can be used only in accordance with external restrictions or enabling legislation. This is an overall improvement in financial position as compared to the prior year.

The following condensed financial information was derived from the government-wide statement of activities and reflects the Authority's change in net position during the fiscal year:

CHANGES IN NET POSITION

For the Fiscal Years Ended September 30

(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 135.5	\$ 147.2	\$ 310.3	\$ 322.6	\$ 445.8	\$ 469.8
Operating grants and contributions	3.2	4.2	273.3	204.7	276.5	208.9
Total revenues	<u>\$ 138.7</u>	<u>\$ 151.4</u>	<u>\$ 583.6</u>	<u>\$ 527.3</u>	<u>\$ 722.3</u>	<u>\$ 678.7</u>
Expenses						
Total expenses	<u>103.7</u>	<u>106.3</u>	<u>394.4</u>	<u>440.7</u>	<u>498.1</u>	<u>547.0</u>
Increase (Decrease) in net position	\$ 35.0	\$ 45.1	\$ 189.2	\$ 86.6	\$ 224.2	\$ 131.7
Net position - Beginning of fiscal year	<u>(1,104.9)</u>	<u>(1,150.0)*</u>	<u>3,976.8</u>	<u>3,890.2</u>	<u>2,871.9</u>	<u>2,740.2*</u>
Net position - End of fiscal year	<u>\$ (1,069.9)</u>	<u>\$ (1,104.9)</u>	<u>\$ 4,166.0</u>	<u>\$ 3,976.8</u>	<u>\$ 3,096.1</u>	<u>\$ 2,871.9</u>

*Restated for 2016.

The Authority's total revenue for fiscal year 2017 increased by \$43.6 million (6.4%) over the prior year, primarily as a result of increased operating subsidies received in the Municipal Bond Fund. Operating Subsidies represent resources for current and future use to administer the programs.

The Authority's total expenses in fiscal year 2017 decreased by \$48.9 million (8.9%) from fiscal year 2016 expenses, primarily from a decrease in operating and non-operating expenses in the Municipal Bond Fund.

FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

General Fund

The General Fund accounts for the administrative expenditures for the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt Service Fund. General Fund total assets, which are all current as of September 30, 2017 increased by \$80,000 (3.7%) primarily because administrative program fees exceeded administrative expenditures. General Fund revenues increased by \$18,000 (4.6%), primarily because the scheduled allocation of resources available for administrative expenditures increased from the prior fiscal year.

General Fund total liabilities, which are all current, increased by \$14,000 (4.8%) as a result of economics and administrative expenditures that were payable at the balance sheet date. Payroll and administrative overhead allocations to the General Fund are calculated once per year at year-end and therefore payable at the balance sheet date.

Other administrative expenditures increased by \$21,000 (6.1%) when compared to the prior fiscal year because of an increase in the costs allocated to the General Fund for MFA employee time, support activities, and legal and audit fees needed to administer the funds during fiscal year 2017.

There are no variances between the General Fund original budget and final budget, nor are there variances between the final budget and actual results. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the original budget reflects the final budget, and the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

Tobacco Settlement Debt Service Fund

Tobacco Settlement Debt Service Fund total current assets increased \$5.5 million (6.5%) as a result of an increase in the TSR receivable at year-end. Total noncurrent assets remained at the same level with an increase of \$59,000 (0.1%). Tobacco Settlement Debt Service Fund total liabilities remained at \$0 during fiscal year 2017.

Tobacco Settlement Debt Service Fund revenues increased by 64,000 (0.1%) and expenditures increased by \$0.3 million (0.5%). All TSR collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA. No large special releases or adjustments were received during fiscal year 2017 and actual revenues received were similar to historical norms.

Unemployment Obligation Assessment Debt Service Fund

Unemployment Obligation Assessment Debt Service Fund total current assets increased by \$79.5 million (13.7%) and total noncurrent assets decreased by \$438.4 million (45.5%) during fiscal year 2017. The overall decrease was due primarily to the decrease in the receivable due from the State of Michigan for revenue collections received during the fiscal year. The Fund had no liabilities on September 30, 2017.

Unemployment Obligation Assessment Debt Service Fund revenues decreased by \$19.3 million (20.8%) primarily as a result of the change in revenue recognition practices from the GASB 48 restatement of the receivable from the State of Michigan that occurred in fiscal year 2016. The fund only recognizes revenue for interest income from the State and all other transfers from TED are a reduction in the receivable from the State of Michigan when received with no revenue component. Expenditures in fiscal year 2017 decreased by \$49.5 million (10.3%) compared to expenditures in fiscal year 2016. Expenditures are driven based on resources on hand prior to scheduled redemption dates on the bonds for payment of principal and interest on debt service.

Municipal Bond Fund

Municipal Bond Fund total current assets increased by \$399.9 million (12.0%) and total noncurrent assets decreased by \$322.8 million (4.2%) during fiscal year 2017. The increase in total current assets was due from the increased Cash & Cash Equivalents on hand in the School Loan Revolving Subfund which came from borrowing school districts paying off outstanding loan balances as well as the increase in investments in the Clean Water and Drinking Water Programs. The decrease in total noncurrent assets was primarily due to the correlating decrease in Receivables from the State of Michigan in the School Loan Revolving Subfund from school districts paying off outstanding loan balances as well as a decrease in non-current investments in the Clean Water and Drinking Water Programs.

Total current liabilities decreased by \$89.6 million (9.0%) and total noncurrent liabilities remained stable with an increase of \$12.0 million (0.2%). The decrease in current liabilities was primarily caused by a decrease in the current debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b.

Municipal Bond Fund operating revenues decreased by \$8.6 million (2.8%) during fiscal year 2017. This decrease was primarily a result of a decrease in interest income in the School Loan Revolving Subfund because less loan balances were outstanding during the fiscal year. Operating expenses decreased by \$22.4 million (8.5%) in fiscal year 2017 primarily because of decreased interest expense from less total bonds and notes outstanding during the fiscal year and a decrease in debt issuance costs from new bond issues for the year.

Municipal Bond Fund nonoperating revenues and expenses, net, increased by \$81.4 million (258.2%) primarily as a result of an increase in operating subsidies received during the fiscal year. Operating Subsidies represent resources for current and future use to administer the programs.

Student Loan Fund

Student Loan Fund total current assets decreased by \$50.4 million (18.6%) and total noncurrent assets decreased by \$67.7 million (9.4%) primarily from redemption of \$125.0 million of notes and bonds. Cash and cash equivalents decreased by \$67.9 million (60.6%) due to the net purchase of investments of \$79.8 million less the receipt of student loan payments. Loans receivable decreased by \$129.5 million because new loans have not been originated since June 30, 2010, \$2.7 million of loans receivable were written off because of loan defaults, and \$137.6 million of student loan principal has been paid during the fiscal year.

Student Loan Fund total current liabilities decreased by \$34.6 million (17.3%) and total noncurrent liabilities decreased by \$97.3 million (16.5%) primarily due to redemptions of bonds and notes totaling \$101.0 million in mandatory redemptions and \$24.0 million in optional redemptions. In addition, net pension liabilities decreased by \$0.2 million (8.5%). Accounts payable and other liabilities decreased by \$1.0 million due to decrease in expenses pertaining to student loans, bonds and notes payable. Arbitrage payable decreased by \$3.9 million (15.0%).

The Student Loan Fund interest revenue decrease of \$5.2 million (14.5%) was primarily attributable to the decrease of the student loan portfolio. The provision of loan loss totaled \$2.7 million, a decrease of 39.1%. Miscellaneous revenue includes \$3.1 million legal settlement pertaining to LIBOR rates.

In fiscal year 2017, Student Loan Fund operating expenses decreased by \$6.3 million (28.2%) primarily due to the \$4.2 million decrease in arbitrage expense, the \$1.9 million decrease in bond issuance costs since no new Series were issued in fiscal year 2017, and the \$1.5 million decrease of administrative expenses primarily due to a decrease of the student loan portfolio and decrease in administrative overhead. The interest expense increase of \$1.2 million was primarily attributable to higher interest rates.

CONTACTING THE MICHIGAN FINANCE AUTHORITY

Additional information about the Authority as well as annual statistical and audit reports can be found at www.michigan.gov/mfa.

The contact information for the Authority is:

Michigan Finance Authority
Richard H. Austin Building
430 West Allegan
Lansing, MI 48922
Phone (517) 335-0994

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BASIC FINANCIAL STATEMENTS

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Michigan Finance Authority

STATEMENT OF NET POSITION
September 30, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	\$	\$ 1,576,824,288	\$ 1,576,824,288
Receivable - Tobacco settlement revenue	55,860,087		55,860,087
Receivable from federal government		1,182,375	1,182,375
Receivable from State of Michigan (Note 4)	414,656,155		414,656,155
Receivable from other funds		2,101,682	2,101,682
Interest receivable	1,131,386	67,765,243	68,896,629
Investments (Note 3)	296,903,568	1,391,696,511	1,688,600,079
Notes receivable (Note 5)		422,929,380	422,929,380
Loans receivable, net (Note 6)		318,983,167	318,983,167
Bonds receivable (Note 7)		226,753,000	226,753,000
Other current assets		598,994	598,994
Total current assets	<u>\$ 768,551,196</u>	<u>\$ 4,008,834,640</u>	<u>\$ 4,777,385,836</u>
Noncurrent assets:			
Receivable from State of Michigan (Note 4)	\$ 525,190,888	\$ 554,307,151	\$ 1,079,498,039
Investments (Note 3)	67,588,965	730,423,019	798,011,984
Notes receivable (Note 5)		18,000,000	18,000,000
Loans receivable, net (Note 6)		2,669,654,843	2,669,654,843
Bonds receivable (Note 7)		4,183,097,135	4,183,097,135
Total noncurrent assets	<u>\$ 592,779,853</u>	<u>\$ 8,155,482,148</u>	<u>\$ 8,748,262,001</u>
Total assets	<u>\$ 1,361,331,049</u>	<u>\$ 12,164,316,788</u>	<u>\$ 13,525,647,837</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding (Note 1)	\$ 1,092,524	\$ 43,382,655	\$ 44,475,179
Deferred outflows related to pensions (Note 13)		1,095,498	1,095,498
Total deferred outflows of resources	<u>\$ 1,092,524</u>	<u>\$ 44,478,153</u>	<u>\$ 45,570,677</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 306,475	\$ 20,984,111	\$ 21,290,586
Bonds and notes payable, net (Note 8)	257,340,000	955,568,041	1,212,908,041
Interest payable	33,771,465	98,883,707	132,655,172
Unearned revenue		12,499,682	12,499,682
Arbitrage payable		22,143,974	22,143,974
Total current liabilities	<u>\$ 291,417,940</u>	<u>\$ 1,110,079,515</u>	<u>\$ 1,401,497,455</u>
Noncurrent liabilities:			
Bonds and notes payable, net (Note 8)	\$ 2,140,941,143	\$ 6,923,899,535	\$ 9,064,840,678
Arbitrage payable		0	0
Compensated absences	9,016	546,910	555,926
Net pension liability (Note 13)		6,877,499	6,877,499
Total noncurrent liabilities	<u>\$ 2,140,950,159</u>	<u>\$ 6,931,323,944</u>	<u>\$ 9,072,274,103</u>
Total liabilities	<u>\$ 2,432,368,099</u>	<u>\$ 8,041,403,459</u>	<u>\$ 10,473,771,558</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding (Note 1)	\$	\$ 1,361,173	\$ 1,361,173
Deferred inflows related to pensions (Note 13)		66,264	66,264
Total deferred inflows of resources	<u>\$ 0</u>	<u>\$ 1,427,437</u>	<u>\$ 1,427,437</u>
NET POSITION			
Restricted for (Note 1):			
Municipal bond fund	\$	\$ 3,901,022,339	\$ 3,901,022,339
Student loan fund		56,305,054	56,305,054
Other purposes		64,483,519	64,483,519
Unrestricted (deficit) (Note 2)	(1,069,944,526)	144,153,133	(925,791,393)
Total net position	<u>\$ (1,069,944,526)</u>	<u>\$ 4,165,964,045</u>	<u>\$ 3,096,019,519</u>

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

Michigan Finance Authority

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:						
Tobacco Settlement	\$ 80,107,968	\$ 67,616,195	\$ 2,264,099	\$ (10,227,674)	\$	\$ (10,227,674)
Unemployment Obligation	23,618,041	67,927,559	908,099	45,217,617		45,217,617
Total Governmental Activities	\$ 103,726,009	\$ 135,543,754	\$ 3,172,198	\$ 34,989,943	\$ 0	\$ 34,989,943
Business-Type Activities:						
Municipal Bond Fund	\$ 362,912,620	\$ 260,752,832	\$ 271,556,217	\$	\$ 169,396,429	\$ 169,396,429
Student Loan Fund	16,157,520	28,612,302	1,191,780		13,646,562	13,646,562
Non-Major Funds						
Michigan Guaranty Agency - Operating Fund	12,656,338	18,892,102	466,895		6,702,659	6,702,659
Michigan Finance Authority - Operating Fund	1,987,709	1,200,052	29,957		(757,700)	(757,700)
Public School Academy Facilities Fund	742,112	855,129	35,769		148,786	148,786
Total Business-Type Activities	\$ 394,456,299	\$ 310,312,417	\$ 273,280,618	\$ 0	\$ 189,136,736	\$ 189,136,736
Total Michigan Finance Authority	\$ 498,182,308	\$ 445,856,171	\$ 276,452,816	\$ 34,989,943	\$ 189,136,736	\$ 224,126,679
			Change in Net Position	\$ 34,989,943	\$ 189,136,736	\$ 224,126,679
			Net Position-beginning	(1,104,934,469)	3,976,827,309	2,871,892,840
			Net Position-ending	<u>\$ (1,069,944,526)</u>	<u>\$ 4,165,964,045</u>	<u>\$ 3,096,019,519</u>

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

Michigan Finance Authority

**GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2017**

	Major Funds			Totals
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	
ASSETS				
Current assets:				
Receivable - Tobacco settlement revenue	\$ 314,658	\$ 55,545,429	\$	\$ 55,860,087
Receivable from State of Michigan (Note 4)			399,914,929	399,914,929
Interest receivable		1,131,386		1,131,386
Investments (Note 3)	1,910,780	33,470,365	261,522,423	296,903,568
Total current assets	<u>\$ 2,225,438</u>	<u>\$ 90,147,180</u>	<u>\$ 661,437,352</u>	<u>\$ 753,809,970</u>
Noncurrent assets:				
Receivable from State of Michigan (Note 4)	\$	\$	\$ 525,190,888	\$ 525,190,888
Investments (Note 3)		67,588,965		67,588,965
Total noncurrent assets	<u>\$ 0</u>	<u>\$ 67,588,965</u>	<u>\$ 525,190,888</u>	<u>\$ 592,779,853</u>
Total assets	<u>\$ 2,225,438</u>	<u>\$ 157,736,145</u>	<u>\$ 1,186,628,240</u>	<u>\$ 1,346,589,823</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total assets and deferred outflows of resources	<u>\$ 2,225,438</u>	<u>\$ 157,736,145</u>	<u>\$ 1,186,628,240</u>	<u>\$ 1,346,589,823</u>
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$ 306,475	\$	\$	\$ 306,475
Total current liabilities	<u>\$ 306,475</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 306,475</u>
Total liabilities	<u>\$ 306,475</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 306,475</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue (Note 1)	\$ 314,657	\$ 55,545,429	\$	\$ 55,860,086
FUND BALANCE				
Fund balance:				
Restricted for Debt Service	\$	\$ 102,190,716	\$ 1,186,628,240	\$ 1,288,818,956
Restricted for Administrative Expenditures	1,604,306			1,604,306
Total fund balance	<u>\$ 1,604,306</u>	<u>\$ 102,190,716</u>	<u>\$ 1,186,628,240</u>	<u>\$ 1,290,423,262</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,225,438</u>	<u>\$ 157,736,145</u>	<u>\$ 1,186,628,240</u>	<u>\$ 1,346,589,823</u>

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

Michigan Finance Authority

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
September 30, 2017

Total fund balances for governmental funds \$ 1,290,423,262

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

Deferred loss on refunding is the difference between the carrying value of refunded bonds and their reacquisition price, which is recognized as an expenditure in the governmental fund when the bonds are refunded, whereas the loss is amortized and expensed over the shorter of the life of the refunded or refunding bonds in the statement of activities. 1,092,524

Interest payable on bonds is not due and payable in the current period and therefore is not reported in the governmental funds, whereas a liability is established for bond interest when incurred in the statement of net position. (33,771,465)

Interest receivable from the State of Michigan on the unemployment bonds that corresponds to the interest payable that is not due in the current period and therefore is not reported in the governmental funds, whereas a receivable is established for accrued interest when earned in the statement of net position. 14,741,225

Bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability for the bonds is established when the bonds are issued in the statement of net position. (2,398,281,143)

Unavailable revenue is recorded in governmental funds for tobacco settlement revenue that has been earned but is not available, whereas revenue is recognized when earned in the statement of net position. 55,860,087

Compensated absences payable are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability is established for absences when earned in the statement of net position. (9,016)

Net position (deficit) \$ (1,069,944,526)

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

Michigan Finance Authority

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended September 30, 2017**

	Major Funds			Totals
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	
REVENUES				
Tobacco settlement revenue	\$ 407,324	\$ 61,408,204	\$ 72,352,384	\$ 61,815,528
Unemployment obligation assessment revenue			72,352,384	72,352,384
Investment income	8,144	2,257,148	906,906	3,172,198
Total revenues	<u>\$ 415,468</u>	<u>\$ 63,665,352</u>	<u>\$ 73,259,290</u>	<u>\$ 137,340,110</u>
EXPENDITURES				
Interest and principal on bonds and notes	\$	\$ 63,896,019	\$ 432,186,050	\$ 496,082,069
Other administrative expenditures	358,733			358,733
Total expenditures	<u>\$ 358,733</u>	<u>\$ 63,896,019</u>	<u>\$ 432,186,050</u>	<u>\$ 496,440,802</u>
Excess of revenues over (under) expenditures	<u>\$ 56,735</u>	<u>\$ (230,667)</u>	<u>\$ (358,926,760)</u>	<u>\$ (359,100,692)</u>
Change in fund balance	\$ 56,735	\$ (230,667)	\$ (358,926,760)	\$ (359,100,692)
Fund balance - Beginning of fiscal year	<u>1,547,571</u>	<u>102,421,383</u>	<u>1,545,555,000</u>	<u>1,649,523,954</u>
Fund balance - End of fiscal year	<u>\$ 1,604,306</u>	<u>\$ 102,190,716</u>	<u>\$ 1,186,628,240</u>	<u>\$ 1,290,423,262</u>

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

Michigan Finance Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2017

Net change in fund balance - Total governmental funds	\$ (359,100,692)
Amounts reported for governmental activities in the statement of activities are different because:	
Tobacco settlement revenue is not recognized as revenue until earned and available by governmental funds and is recorded as deferred inflows of resources. Revenue is recognized when earned in the statement of activities.	5,800,667
Accrued interest revenue payable from the primary government does not provide current financial resources for governmental funds because the revenue is not available, whereas interest revenue is recognized when earned for the statement of activities.	(4,424,825)
Bond proceeds and principal payments - Bond proceeds are current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Bond proceeds are increased/decreased for bond premiums/discounts when bonds are issued, whereas the premiums/discounts are amortized and expensed over the life of the bonds in the statement of activities.	
Repayment of bond principal	365,565,000
Amortization of bond premiums	45,040,770
Amortization of bond discounts	(320,246)
Bond interest is recognized as an expenditure when due and payable by governmental funds, whereas it is expensed when incurred for the statement of activities.	(17,569,059)
Compensated absences are recorded as expenditures in governmental funds when due and payable, whereas they are accrued and expensed when these absences are earned in the statement of activities.	(1,672)
Net change in net position	<u>\$ 34,989,943</u>

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

Michigan Finance Authority

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2017**

	Business-Type Activities			Totals
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 1,521,815,236	\$ 44,159,585	\$ 10,849,467	\$ 1,576,824,288
Receivable from federal government	257,715	510,624	414,036	1,182,375
Receivable from other funds			2,101,682	2,101,682
Interest receivable	53,972,761	13,063,013	729,469	67,765,243
Investments (Note 3)	1,320,165,056	55,923,632	15,607,823	1,391,696,511
Notes receivable (Note 5)	390,520,380		32,409,000	422,929,380
Loans receivable, net (Note 6)	212,037,220	106,945,947		318,983,167
Bonds receivable (Note 7)	226,753,000			226,753,000
Other current assets	250	12,216	586,528	598,994
Total current assets	\$ 3,725,521,618	\$ 220,615,017	\$ 62,698,005	\$ 4,008,834,640
Noncurrent assets:				
Receivable from State of Michigan (Note 4)	\$ 554,307,151	\$	\$	\$ 554,307,151
Investments (Note 3)	548,338,019	127,478,969	54,606,031	730,423,019
Notes receivable (Note 5)		18,000,000		18,000,000
Loans receivable, net (Note 6)	2,161,827,586	507,827,257		2,669,654,843
Bonds receivable (Note 7)	4,183,097,135			4,183,097,135
Total noncurrent assets	\$ 7,447,569,891	\$ 653,306,226	\$ 54,606,031	\$ 8,155,482,148
Total assets	\$ 11,173,091,509	\$ 873,921,243	\$ 117,304,036	\$ 12,164,316,788
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding (Note 1)	\$ 40,863,565	\$ 2,519,090	\$	\$ 43,382,655
Deferred outflows related to pensions (Note 13)		293,550	801,948	1,095,498
Total deferred outflows of resources	\$ 40,863,565	\$ 2,812,640	\$ 801,948	\$ 44,478,153
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$ 18,920,715	\$ 2,058,121	\$ 5,275	\$ 20,984,111
Bonds and notes payable, net (Note 8)	782,448,000	138,735,041	34,385,000	955,568,041
Interest payable	95,774,013	3,054,229	55,465	98,883,707
Unearned revenue	12,499,682			12,499,682
Arbitrage payable		22,143,974		22,143,974
Total current liabilities	\$ 909,642,410	\$ 165,991,365	\$ 34,445,740	\$ 1,110,079,515
Noncurrent liabilities:				
Bonds and notes payable, net (Note 8)	\$ 6,433,690,939	\$ 490,208,596	\$	\$ 6,923,899,535
Compensated absences		135,983	410,927	546,910
Net pension liability (Note 13)		1,637,500	5,239,999	6,877,499
Total noncurrent liabilities	\$ 6,433,690,939	\$ 491,982,079	\$ 5,650,926	\$ 6,931,323,944
Total liabilities	\$ 7,343,333,349	\$ 657,973,444	\$ 40,096,666	\$ 8,041,403,459
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding (Note 1)	\$ 1,361,173	\$	\$	\$ 1,361,173
Deferred inflows related to pensions (Note 13)		15,777	50,487	66,264
Total deferred inflows of resources	\$ 1,361,173	\$ 15,777	\$ 50,487	\$ 1,427,437
NET POSITION				
Restricted for (Note 1):				
State Revolving Subfund	\$ 2,538,505,853	\$	\$	\$ 2,538,505,853
Strategic Water Quality Initiatives Subfund	82,985,593			82,985,593
School Loan Revolving Subfund	1,279,530,893			1,279,530,893
Student Loan Fund		56,305,054		56,305,054
Michigan Guaranty Agency - Operating Fund			62,758,830	62,758,830
Public School Academy Facilities Fund			1,724,689	1,724,689
Unrestricted	(31,761,787)	162,439,608	13,475,312	144,153,133
Total net position	\$ 3,869,260,552	\$ 218,744,662	\$ 77,958,831	\$ 4,165,964,045

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

Michigan Finance Authority

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 2017

	Business-Type Activities			Totals
	Major Funds			
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
OPERATING REVENUES				
Federal revenue, net of special allowance (Notes 1 and 11)	\$ 680,719	\$ (5,367,787)	\$ 17,050,001	\$ 12,362,933
Interest revenue	260,281,862	30,803,772	852,129	291,937,763
Provision for loan losses		(2,730,835)		(2,730,835)
Investment income	36,105,246	1,191,780	532,621	37,829,647
Fees			1,861,354	1,861,354
Miscellaneous	470,970	5,907,152	1,183,799	7,561,921
Total operating revenues	<u>\$ 297,538,797</u>	<u>\$ 29,804,082</u>	<u>\$ 21,479,904</u>	<u>\$ 348,822,783</u>
OPERATING EXPENSES				
Arbitrage expense	\$ (2,578,135)	\$ (3,912,463)	\$	\$ (6,490,598)
Interest expense	233,646,393	12,979,516	459,736	247,085,645
Debt issuance costs	3,564,163		282,175	3,846,338
Other administrative expense	6,500,092	7,090,467	14,644,248	28,234,807
Total operating expenses	<u>\$ 241,132,513</u>	<u>\$ 16,157,520</u>	<u>\$ 15,386,159</u>	<u>\$ 272,676,192</u>
Operating income	<u>\$ 56,406,284</u>	<u>\$ 13,646,562</u>	<u>\$ 6,093,745</u>	<u>\$ 76,146,591</u>
NONOPERATING REVENUES (EXPENSES)				
Operating subsidies	\$ 234,770,252	\$	\$	\$ 234,770,252
Program principal forgiveness, net	(37,229,236)			(37,229,236)
Grant expense	(84,550,871)			(84,550,871)
Total nonoperating revenues (expenses)	<u>\$ 112,990,145</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 112,990,145</u>
Income before transfers	<u>\$ 169,396,429</u>	<u>\$ 13,646,562</u>	<u>\$ 6,093,745</u>	<u>\$ 189,136,736</u>
TRANSFERS				
Transfers from other funds	\$	\$	\$ 22,290	\$ 22,290
Transfers to other funds	(22,290)			(22,290)
Total transfers	<u>\$ (22,290)</u>	<u>\$ 0</u>	<u>\$ 22,290</u>	<u>\$ 0</u>
Change in net position	\$ 169,374,139	\$ 13,646,562	\$ 6,116,035	\$ 189,136,736
Net position - Beginning of fiscal year	3,699,886,413	205,098,100	71,842,796	3,976,827,309
Net position - End of fiscal year	<u>\$ 3,869,260,552</u>	<u>\$ 218,744,662</u>	<u>\$ 77,958,831</u>	<u>\$ 4,165,964,045</u>

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

Michigan Finance Authority

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**
For the Fiscal Year Ended September 30, 2017

	Business-Type Activities			
	Major Funds		Non-Major Funds	Totals
	Municipal Bond Fund	Student Loan Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	\$ (1,099,667,295)	\$	\$ (35,071,267)	\$ (1,134,738,562)
Principal received on bonds, notes, and loans	1,342,111,924	137,551,114	39,081,000	1,518,744,038
Interest received on bonds, notes, and loans	336,219,489	24,985,816	809,425	362,014,730
Cash payments to employees and suppliers for goods and services	(9,151,835)	(9,309,975)	(15,910,224)	(34,372,034)
Net special allowance payment to federal government		(8,441,241)		(8,441,241)
Other operating revenues	1,084,533	5,969,981	20,978,654	28,033,168
Net cash provided by operating activities	\$ 570,596,816	\$ 150,755,695	\$ 9,887,588	\$ 731,240,099
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	\$ 760,824,020	\$	\$ 34,385,000	\$ 795,209,020
Payment of debt issuance costs	(3,268,792)		(298,050)	(3,566,842)
Principal paid on bonds and notes	(833,244,012)	(125,048,000)	(39,440,000)	(997,732,012)
Interest paid on bonds and notes	(271,245,048)	(14,519,843)	(452,142)	(286,217,033)
Operating subsidies	162,986,269			162,986,269
Principal forgiveness expense	(16,458,900)			(16,458,900)
Grant expense	(84,550,871)			(84,550,871)
Other	10,338,335		22,290	10,360,625
Net cash used in noncapital financing activities	\$ (274,618,999)	\$ (139,567,843)	\$ (5,782,902)	\$ (419,969,744)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	\$ (99,890,173)	\$ (151,602,832)	\$ (19,515,167)	\$ (271,008,172)
Proceeds from sale and maturities of investments	87,547,782	70,317,596	11,808,005	169,673,383
Net (purchases of) proceeds from sale and maturity of money market funds	(20,461,552)		472,404	(19,989,148)
Interest and dividends on investments	48,085,334	2,242,535	1,608,182	51,936,051
Net cash used in investing activities	\$ 15,281,391	\$ (79,042,701)	\$ (5,626,576)	\$ (69,387,886)
Net Increase (decrease) in cash and cash equivalents	\$ 311,259,208	\$ (67,854,849)	\$ (1,521,890)	\$ 241,882,469
Cash and cash equivalents - Beginning of fiscal year	1,210,556,028	112,014,434	12,371,357	1,334,941,819
Cash and cash equivalents - End of fiscal year	\$ 1,521,815,236	\$ 44,159,585	\$ 10,849,467	\$ 1,576,824,288
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Operating income	\$ 56,406,284	\$ 13,646,562	\$ 6,093,745	\$ 76,146,591
Adjustments to reconcile operating income to net cash from operating activities:				
Investment income	(36,105,246)	(1,193,315)	(532,621)	(37,831,182)
Other income	(42,068)		(3,000)	(45,068)
Interest expense	233,646,393	12,979,516	459,736	247,085,645
Debt issuance cost	3,564,163		282,175	3,846,338
Pension expense		(120,079)	(455,795)	(575,874)
Changes in assets and liabilities:				
Decrease in other receivables	324,641,675	1,011,434	157,842	325,810,951
Decrease in other payables	(147)	(5,038,635)	(80,318)	(5,119,100)
(Increase) decrease in bonds, notes, and loans receivable	(11,514,238)	129,470,212	3,965,824	121,921,798
Net cash provided by operating activities	\$ 570,596,816	\$ 150,755,695	\$ 9,887,588	\$ 731,240,099

Noncash capital and financing activities:

The Authority issued Local Government Revenue Bonds for exchange for State Aid Revenue Notes issued in 2016. The \$19.3 million proceeds were used for cancellation and exchange for the \$19.3 million of outstanding revenue notes principal.

The Authority issued State Revolving Fund Revenue Bonds to refund debt issued in 2009 and 2010 and to pay off the 2016A BAN. The \$293.1 million proceeds were deposited immediately into an escrow account for the defeasance of \$202.9 million of outstanding revenue bond principal. In addition, \$55.8 million was remitted to repay the outstanding principal and interest on the Series 2016A BAN.

Michigan Finance Authority

FIDUCIARY FUNDS – PRIVATE PURPOSE TRUST
STATEMENT OF FIDUCIARY NET POSITION
September 30, 2017

	Michigan Guaranty Agency Federal Fund
ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 15,410,490
Receivable from federal government	8,391,221
Total current assets	<u>\$ 23,801,711</u>
 Total assets	 <u>\$ 23,801,711</u>
LIABILITIES	
Current liabilities:	
Accounts payable and other liabilities	\$ 5,969,747
Payable to other funds	1,605,258
Student loan claims payable	4,077,408
Total current liabilities	<u>\$ 11,652,413</u>
 Total liabilities	 <u>\$ 11,652,413</u>
NET POSITION	
Net position held in trust (Notes 1b.(5) and 1d.(1))	<u><u>\$ 12,149,298</u></u>

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

Michigan Finance Authority

FIDUCIARY FUNDS – PRIVATE PURPOSE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended September 30, 2017

	Michigan Guaranty Agency Federal Fund
Additions:	
Federal revenue	\$ 102,587,040
Loans recovered, repurchased, and rehabilitated	83,572,801
Investment income	68,897
Fees	1,740,220
Total additions	<u>\$ 187,968,958</u>
Deductions:	
Student loan claims paid to lenders	\$ 102,834,704
Payments to federal government	81,591,692
Other expense	673,888
Total deductions	<u>\$ 185,100,284</u>
Net increase	\$ 2,868,674
Net position - Beginning of fiscal year	<u>9,280,624</u>
Net position - End of fiscal year	<u>\$ 12,149,298</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Significant Accounting Policies

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

a. Reporting Entity

The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools, formerly under the Michigan Strategic Fund, and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority is governed by its own Board of Directors, composed of seven members, consisting of the State Treasurer as chair and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority. All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the direction and supervision of the State Treasurer.

The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the State or to pledge the full faith and credit of the State; however, the Authority may borrow money and issue bonds and notes to provide sources of funding for loans to governmental units and school districts. In addition, the Authority may issue bonds and notes to provide sources of funding for private or nonpublic, nonprofit institutions of higher education; governmental units; and eligible healthcare providers and facilities and to undertake or continue public and capital improvements by assisting governmental units in financing and marketing municipal debt and tax-exempt bonds.

The Authority is also empowered to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. However, due to the enactment of legislation by the U.S. Congress, effective June 30, 2010, the Authority is no longer originating or acquiring loans. The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions; however, due to the enactment of legislation by the U.S. Congress, effective June 30, 2010, MGA is no longer permitted to issue new loan guarantees.

The accompanying financial statements report the net financial position and the changes in net financial position and, where applicable, cash flows of the Authority. They do not purport to, and do not, fairly present the net financial position and the changes in net financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are

included in the *State of Michigan Comprehensive Annual Financial Report* as a discretely presented component unit.

b. Authority Programs

- (1) The Authority's Tobacco Settlement Debt Service Fund (formerly known as the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Public Act 226 of 2005, and amended by Public Act 18 of 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds. During fiscal years 2006, 2007, and 2008, the Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.
- (2) The Authority's Unemployment Obligation Assessment Debt Service Fund was created pursuant to Public Act 267 of 2011, to account for bonds issued for the purpose of repaying federal advances to the State's unemployment trust account. Under the Act, the bonds are secured by an unemployment obligation assessment, which is collected by the Department of Talent and Economic Development (TED) from employers and is deposited into the fund.
- (3) The Authority's Municipal Bond Fund (formerly known as the Michigan Municipal Bond Authority) was created pursuant to Public Act 227 of 1985, to provide alternative sources of funding for governmental units within the State to undertake or continue public improvements by assisting those governmental units in financing and marketing municipal debt. The Municipal Bond Fund includes the Local Municipalities Subfund, State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund:
 - (a) The Local Municipalities Subfund includes the financing activities for municipalities, excluding those activities for school districts, water pollution control, and drinking water projects reported in the other subfunds.
 - (b) The State Revolving Subfund, which includes the Clean Water Program and Drinking Water Program, and the Strategic Water Quality Initiatives Subfund are co-administered by the Authority and the Department of Environmental Quality. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects.
 - (c) The Authority's School Loan Revolving Subfund is a self-sustaining fund and was established by Public Act 93 of 2005, to make loans to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Any money repaid by school districts on loans is deposited back into the revolving fund for future use in funding new loans.
- (4) The Authority's Student Loan Fund (formerly known as the Michigan Higher Education Student Loan Authority) was created and organized under Public Act 222 of 1975, as amended, to complement and supplement the student loan efforts of private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

- (5) The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions. The Michigan Guaranty Agency Federal Fund, a fiduciary fund, accounts for money received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). With the passage of the Health Care and Education Reconciliation Act of 2010 on March 26, 2010, no new loan guarantees were permitted to be made by MGA after June 30, 2010.
- (6) The Authority's Public School Academy Facilities Fund (formerly known as the Michigan Public Educational Facilities Authority) was authorized by Executive Reorganization Order No. 2002-3 (Section 12.192 of the *Michigan Compiled Laws*) to issue bonds for the purpose of making loans through the purchase of municipal obligations in fully marketable form of a governmental unit or making loans to a nonprofit entity for the benefit of a public school academy. All Public School Academy Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

c. Other Authority Operations

- (1) The Authority's Healthcare Finance Fund (formerly known as the Michigan State Hospital Finance Authority) was organized under Public Act 38 of 1969, as amended, to facilitate the ability of eligible healthcare providers and facilities to obtain financing and refinancing for capital improvements by obtaining loans from the Authority. The Authority issues bonds for facility equipment loans through the Healthcare Equipment Loan Program and issues revenue bonds and bonds for other capital needs of the facilities. All Healthcare Finance Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.
- (2) The Authority's Higher Education Facilities Fund (formerly known as the Michigan Higher Education Facilities Authority) was organized under Public Act 295 of 1969, as amended, to issue tax-exempt bonds and lend the proceeds to private or nonpublic, nonprofit institutions of higher education within the State for capital improvements. All Higher Education Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.
- (3) The Michigan Strategic Fund was organized under Public Act 270 of 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds issued through the Authority are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

d. Basis of Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the governmental and business-type activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended. These

requirements provide a comprehensive one-line look at the Authority's financial activities, which are presented in the following financial statements:

(1) Government-Wide Financial Statements

The Authority's statement of net position and statement of activities report information on all non-fiduciary activities of the Authority. The Michigan Guaranty Agency Federal Fund, a fiduciary fund, is excluded from the government-wide financial statements because these assets are held by the Authority on behalf of the USDOE and do not represent discretionary assets of the Authority to finance its operations. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by charges to external parties for goods or services. The statement of net position presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources represents the Authority's net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

(2) Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual funds are reported as separate columns in the fund financial statements, with non-major proprietary funds being combined into a single column.

The Authority's major governmental funds include the General Fund, Tobacco Settlement Debt Service Fund, and Unemployment Obligation Assessment Debt Service Fund. The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. The non-major proprietary funds include the Michigan Guaranty Agency - Operating Fund, Michigan Finance Authority - Operating Fund, and Public School Academy Facilities Fund. The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund.

e. Measurement Focus and Basis of Accounting

The Authority follows the accounting rules promulgated by GASB. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

f. **Major Account Classifications: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance**

- (1) Cash and Cash Equivalents - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, highly liquid short-term investments with original maturities of three months or less that are used by the Authority for cash management rather than investing activities are reported as cash equivalents.
- (2) Receivable - Tobacco Settlement Revenue (TSR) - This receivable represents the revenue earned as a result of the sale by the State of a portion of its future TSR. The receivable is recognized as revenue in the government-wide financial statements but is recognized as unavailable revenue in the governmental General Fund and the debt service fund financial statements.
- (3) Receivable From State of Michigan - The receivable recorded in the School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund.

The receivable recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority from the transfer of bond proceeds to the State of Michigan that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by TED from employers, and transferred to the Authority to be used for debt service. Accrued interest receivable due from the State is also recorded in this classification on the financial statements.

- (4) Interest Receivable - This represents interest income earned but not yet received at year-end. This includes interest income earned on investments, notes, loans, and bonds with the exception of accrued interest receivable from the State of Michigan, which is classified as Receivable from State of Michigan on the financial statements.
- (5) Investments - The Authority invests funds that will not be needed for program use in the near term in investments that include money market funds, commercial paper, U.S. Treasury obligations, repurchase agreements, certificates of deposit and bonds. The investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders when due and paying other Authority obligations as required pertaining to rating agency, trustee, servicer charges, and administrative expenses.
- (6) Notes Receivable - The Authority issues State aid notes and loans the proceeds to school districts and public school academies to meet cash flow needs for operating purposes. The Student Loan Fund retains Student Loan Asset-Backed notes in the Operating Subfund that may be retained or sold in the future.
- (7) Loans Receivable - The Authority has outstanding loans with local units of government, public schools, and students and parents. Premiums on loans are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income.
- (8) Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that includes regular principal and interest payments over the life of the bonds.

- (9) Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority has two items that qualify for reporting in this category in the government-wide and proprietary fund financial statements: deferred losses on debt refundings and deferred outflows related to pensions.

A loss on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt. The deferred outflows related to pension result from the following: differences between expected and actual actuarial experience, the net difference between projected and actual earnings on investments, changes in the Authority's proportion of the net pension liability and differences between employer contributions and the Authority's proportionate share of contributions, and the Authority's contributions to the pension plan subsequent to the measurement date.

- (10) Accounts Payable and Other Liabilities - The Authority's accounts payable relate to services provided by vendors and employees and other costs incurred but not yet paid as of year-end.
- (11) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund financial statements, bond premiums and discounts are amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, bond premiums and discounts are recognized in the current period. The face amount of the debt issued, premiums, and discounts are reported as other financing sources and uses.

- (12) Notes Payable - The Authority issues State aid, tax anticipation, and public school academy facilities notes that are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the school's notes and from investment earnings, undisbursed note proceeds, and other funds of each participating public school retained by the trustees on a note issue-specific basis.
- (13) Interest Payable - This represents interest expense on the Authority's outstanding bonds that has been incurred but not paid at year-end.
- (14) Unearned Revenue - The Municipal Bond Fund records unearned revenue for grant awards until the Authority disburses the funds to the recipients.
- (15) Arbitrage Payable - In accordance with provisions of the Internal Revenue Code and related regulations, interest income from investments related to the Authority's tax-exempt bond issues is generally limited to the bond yield of the related bond issue. Similarly, loan income on all tax-exempt bond issues that may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of excess loan and investment income. Payments of excess loan or investment income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.

- (16) Compensated Absences - In the government-wide and proprietary fund financial statements, compensated absences are reported as liabilities. Compensated absences are accrued employee vacation, banked leave time, and sick leave time. In governmental fund financial statements, liabilities for compensated absences are accrued when they are considered due and payable and recorded in the fund only for separations or transfers that occur before year-end. The Authority is allocated a percentage of assigned employees of the Department of Treasury. The Authority allocates employee payroll costs among the various Authority operating funds as appropriate to where the employees' time resources are concentrated.
- (17) Deferred Inflows of Resources - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category in the government-wide and proprietary fund financial statements: deferred gains on debt refundings and deferred inflows related to pensions.

A gain on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt. The deferred inflows related to pension results from changes in the Authority's proportion of the net pension liability and differences between employer contributions and the Authority's proportionate share of contributions.

The Authority also reports deferred inflows of resources in governmental fund financial statements for unavailable revenue that has not met the recognition criteria for availability under the modified accrual basis of accounting, primarily for TSR. These amounts are deferred and recognized as inflows of resources in the period that the revenue becomes available.

- (18) Net Position - The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is net position on the government-wide, proprietary fund, and fiduciary fund financial statements. Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net positions are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts. The Student Loan Fund restricted net position is pledged by bond indentures that provide funds for student loans.
- (19) Fund Balance - The difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is the fund balance on the governmental fund financial statements. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation or bond covenants.

g. Major Account Classifications: Revenues, Expenses/Expenditures, and Additions/Deductions

- (1) Governmental Funds - Revenues are from two primary sources. The first revenue source is from the Authority's share of TSR received by the State of Michigan under the terms of the Master Settlement Agreement (MSA). The second revenue source is from unemployment obligation assessment revenue collections received from TED. Expenditures are primarily debt service principal and interest on outstanding bonds.

- (2) Proprietary Funds - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

The Authority's primary operations include issuing bonds, providing and acquiring loans, purchasing local governmental units' municipal bonds, and guaranteeing qualified student loans. The operating revenues and expenses and the nonoperating revenues and expenses from the Authority's primary operations include:

- (a) Operating Revenues - The principal operating revenues of the Authority are federal grants, interest earned on loans, provision for loan losses, investment income, and charges to customers for financing services. Federal revenue is for defaulted student loan recoveries, repurchased and rehabilitated loans, and account maintenance. Fees are generated from servicing outstanding loans.
- (b) Operating Expenses - Operating expenses of the Authority include arbitrage expense, interest expense on bonds and notes, debt issuance costs, and other administrative expenses.
- (c) Non-operating Revenues/Expenses - Non-operating revenues includes capital provided by the State of Michigan and recognized as operating subsidies. Non-operating expenses represent the disbursement of grant funds and principal forgiveness.
- (3) Fiduciary Fund - The activity within the fund and the resulting net position do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust by the Authority, on behalf of the USDOE. Additions include federal funds and recovery of funds from potentially defaulted loans, repurchased loans, or rehabilitated loans. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by MGA and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Authority estimates the arbitrage liability on outstanding bond issues. In addition, the use of estimates by the Authority is also disclosed in Note 6d. for Student Loan Fund receivables, Note 12a. for contingencies related to the TSR, and Note 12b. for contingencies related to the Michigan Guaranty Agency Federal Fund loan loss provision.

Note 2 Deficit Net Position

a. Governmental Activities

The Authority reported a deficit net position of \$1,069.9 million at September 30, 2017 on the government-wide statement of net position within governmental activities. The Tobacco Settlement Debt Service Fund activities and the Unemployment Obligation Assessment Debt Service Fund activities accounted for a deficit net position of \$1,003.7 million and \$66.2 million, respectively, at September 30, 2017.

The payments to be received for the Tobacco Settlement Debt Service Fund under the MSA represent a share of anticipated future sales of tobacco products. Although the Authority expects to receive certain amounts under the MSA, the collections are not subject to accrual under GAAP due to the fact that the Authority opted to implement the deferral provision of GASB Statement No. 48, paragraph 15 prospectively as allowed by the standard.

The receivable from the State of Michigan recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority from the transfer of bond proceeds to the primary government that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by TED from employers, and transferred to the Authority to be used for debt service to pay the principal and interest on the bonds. The receivable from the State of Michigan is derived from the corresponding Authority bond principal and interest outstanding. Bond premiums that are amortized over the life of the bonds increase the book value of the liability by the amount of unamortized premium at September 30, 2017, thereby increasing liabilities greater than assets resulting in a net deficit in the Authority's governmental activities.

b. Business-Type Activities

The Authority reported a deficit net position of \$191,644 at September 30, 2017 on the Non-Major Funds Combining Statement of Net Position for the Public School Academy Facilities Fund. In accordance with the Authority's implementation of GASB Statement No. 65 in fiscal year 2014, the fund's debt issuance costs must be recognized as expenses in the period in which the debt is issued. Previous to GASB Statement No. 65, debt issuance costs were amortized over the life of the debt and the unamortized balances were reported as deferred charges/financing costs in the assets of the financial statements. Implementation of this standard, which requires the Authority to expense all historical unamortized balances, caused the fund to end in a deficit net position.

Note 3 Deposits and Investments

The Authority reports investments at fair value based on quoted market prices, consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, except for commercial paper, U.S. Treasury notes, and U.S. Treasury bills, which are all reported at amortized cost if purchased within one year of maturity, and repurchase agreements, which are reported using cost-based measures because they are nonparticipating interest-earning investment contracts.

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Deposits and investments held by the Authority at September 30, 2017 were as follows:

	Governmental Activities	Business-Type Activities		
	Governmental Funds	Proprietary Funds	Fiduciary Fund	Total
Deposits	\$	\$ 1,523,107,541	\$ 25,000	\$ 1,523,132,541
Investments	\$ 364,492,533	\$ 2,174,983,811	\$ 15,294,728	\$ 2,554,771,072

a. Authorized Investments

State statutes, board resolutions, and bond indentures authorize allowable investments for the various funds. The permissible investments for the various funds include:

(1) Governmental Activities

(a) General Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper.

(b) Tobacco Settlement Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper. The Authority's bond indenture restricts the Authority to investments rated "A-1" or higher by Standard & Poor's (S&P), "P-1" by Moody's Investors Service, Inc. (Moody's), and "F1" by Fitch Ratings (Fitch).

(c) Unemployment Obligation Assessment Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines to be proper. In addition, the Master Bond Indenture specifies eligible investments.

(2) Business-Type Activities

(a) Municipal Bond Fund

The Authority is authorized by State statute to direct and manage its investments within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures for the various programs within the Municipal Bond Fund further define eligible investments.

(b) Student Loan Fund

The Authority is authorized by State statute to invest in obligations of, or guaranteed by, the U.S. government or the State of Michigan; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(c) Michigan Guaranty Agency - Operating Fund

Section 422B(b) of the Higher Education Act permits the Authority to invest Operating Fund funds at its own discretion in accordance with prudent investor standards.

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Higher Education Facilities Fund are consolidated into the Michigan Finance Authority - Operating Fund. State statutes for these funds authorize the allowable investments. The authorized investments for the Local

Municipalities Subfund are identified under the Municipal Bond Fund in part a.(2)(a) of this note, and the authorized investments for the Public School Academy Facilities Fund are identified in part a.(2)(e) of this note. The authorized investments for the Healthcare Finance Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan; certificates of deposit; commercial paper; U.S. government repurchase agreements; mutual funds; bankers' acceptances; and other obligations approved by the State Treasurer. The authorized investments for the Higher Education Facilities Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan and certificates of deposit.

(e) Public School Academy Facilities Fund

The Authority is authorized by State statute to invest within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures may further define eligible investments.

(3) Fiduciary Fund - Michigan Guaranty Agency Federal Fund

Section 422A(b) of the Higher Education Act permits the Authority to invest in obligations issued or guaranteed by the United States or a state or in other similarly low-risk securities selected by the guaranty agency with the approval of the Secretary of Education.

b. Cash and Investment Risks

The Authority's cash and investments are subject to several types of risk:

- (1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had \$1.5 billion in deposits at September 30, 2017. Of this balance, \$1.5 billion was invested in the State of Michigan's common cash pool and \$5.1 million was the carrying value of cash in financial institutions.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions; bonds, notes, and other U.S. government debt; prime commercial paper; certificates of deposit; and special State investment programs. The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower.

The Authority does not have a policy for controlling custodial credit risk. Of the \$5.1 million deposited in financial institutions, \$0.5 million was insured by the Federal Depository Insurance Corporation and \$4.6 million was uninsured and uncollateralized and, therefore, exposed to custodial credit risk at September 30, 2017.

- (2) Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority does not have a policy for controlling custodial credit risk. At September 30, 2017, commercial paper of \$25.3 million from business-type activities

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(1.0% of the Authority's investments) was exposed to custodial credit risk because it was uninsured, not registered, and held by the counterparty.

- (3) **Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority does not have a policy for controlling interest rate risk. The Authority's investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders and paying other obligations as required. Investment timing for managing cash flow requirements is relative to the rates in securities at the time each investment decision is required to be made. To the extent possible, the Authority considers laddering investment maturities to meet cash flow requirements. Other than to keep all funds not required for immediate use in cash, there is no practical method to mitigate interest rate risk to hedge the rise of interest rates. Also, the Authority makes investments in accordance with applicable statutory and bond indenture provisions.

At September 30, 2017, the average maturities of investments were as follows:

Type of Investment	Fair Value	Investment Maturities			
		Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Governmental Activities					
Government money market funds	\$ 115,992,922	\$ 115,992,922	\$	\$	\$
Repurchase Agreement	37,801,532		37,801,532		
Commercial paper	1,275,529	1,275,529			
U.S. Treasury Bills	55,415,922	55,415,922			
U.S. Treasury Note	19,690,963	19,690,963			
U.S. Government Agency	101,104,589	101,104,589			
Qualified Municipal GO Bonds	33,211,076	3,423,643	14,018,112	7,421,868	8,347,453
Total governmental activities	\$ 364,492,533	\$ 296,903,568	\$ 51,819,644	\$ 7,421,868	\$ 8,347,453
Business-Type Activities					
Government money market funds	\$ 1,180,569,541	\$ 1,180,569,541	\$	\$	\$
Repurchase Agreement	399,470,973		20,399,720	104,556,584	274,514,669
Commercial paper	25,298,693	25,298,693			
U.S. Treasury State & Local Govt Series	22,125,669	5,134,469	16,991,200		
U.S. Government Agency	370,470,881	210,590,082	126,946,367	32,934,432	
State of Michigan GO Bonds	58,490,201	17,558,211	40,931,990		
Qualified Municipal GO Bonds	102,209,404	3,188,797	73,272,761	25,418,574	329,272
Certificates of Deposit	16,348,449	2,220,999	14,127,450		
Total business-type activities	\$ 2,174,983,811	\$ 1,444,560,792	\$ 292,669,488	\$ 162,909,590	\$ 274,843,941
Fiduciary Activities					
Government money market funds	\$ 15,294,728	\$ 15,294,728	\$	\$	\$

- (4) **Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires Guaranteed Investment Contracts to have minimum levels of collateralization which are in compliance with bond indentures and underlying statutes; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2017, the credit quality ratings of debt securities, excluding U.S. government securities of \$22.1 million and certificates of deposits of \$16.3 million that are not considered to have credit risk, were as follows:

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Investment	Fair Value	Rating	Rating Organization
<u>Governmental Activities</u>			
Governmental Money Markets	\$ 115,992,922	AAAm	S&P
Repurchase Agreement	37,801,532	A-	S&P
Qualified Muni Bond	16,529,959	AA-	S&P
Qualified Muni Bond	2,643,494	Aa1	Moody's
Qualified Muni Bond	10,613,980	AA	S&P
Qualified Muni Bond	3,423,643	AA+	S&P
Commercial Paper	1,275,529	A-1+	S&P
U.S. Government Agency Securities	101,104,589	AA+	S&P
U.S. Treasury Bill	55,415,922	AAAm	S&P
U.S. Treasury Note	19,690,963	Aaa	Moody's
Total Governmental Activities	\$ 364,492,533		
<u>Business-Type Activities</u>			
Governmental Money Markets	\$ 1,180,569,541	AAAm	S&P
Repurchase Agreement	179,669,535	A	S&P
Repurchase Agreement	139,981,312	A-	S&P
Repurchase Agreement	59,420,406	AA	S&P
Repurchase Agreement	20,399,720	Aa1	Moody's
Commercial Paper	5,116,217	A-1	S&P
Commercial Paper	20,182,476	A-2	S&P
State of Michigan General Obligation Bonds	58,490,201	AA	S&P
U.S. Government Agency Securities	370,470,881	AA+	S&P
Qualified Municipal General Obligation Bonds	70,370,427	AA-	S&P
Qualified Municipal General Obligation Bonds	4,560,897	AA	S&P
Qualified Municipal General Obligation Bonds	2,731,898	AAA	S&P
Qualified Municipal General Obligation Bonds	24,546,182	Aa1	Moody's
Total Business-Type Activities	\$ 2,136,509,693		
<u>Fiduciary Activities</u>			
Government Money Market Funds	\$ 15,294,728	AAAm	S&P

- (5) Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investments with a single issuer. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires Guaranteed Investment Contracts to have minimum levels of collateralization which are in compliance with bond indentures and underlying statutes; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

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At September 30, 2017, the Authority had investments of 5% or more of the Authority's total investments by fund activity type in the following issuers, excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds, which are excluded from this requirement by GASB:

Name of Issuer	Fair Value	Percent of Investments
<u>Governmental Activities</u>		
U.S. government agency securities - Federal Home Loan Mortgage Corporation	\$ 101,104,589	28%
Repurchase Agreement - Hypo Public Finance Bank/Depfa	\$ 37,801,532	10%
<u>Business-Type Activities</u>		
U.S. government agency securities - Federal Home Loan Banks	\$ 143,618,095	7%
Repurchase Agreement - Hypo Public Finance Bank/Depfa	\$ 139,981,312	6%

- (6) Fair Value Measurement - 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.

The Authority has the following recurring fair value measurements as of September 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Investments by fair value level:			
Municipal bonds	\$ 135,420,479		\$ 135,420,479
General obligation bonds	58,490,201		58,490,201
U.S. government agency securities	471,575,470	\$ 39,106,560	432,468,910
U.S. treasury bonds	16,991,200	16,991,200	

U.S. treasury bonds and certain U.S. government agency securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of municipal bonds, general obligation bonds, and certain U.S. government agency securities at September 30, 2017 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Authority holds certain money market investments that are measured at the net asset value (NAV) per share (or its equivalent). There are no limitations or restrictions on participant withdrawals for the money market funds that are recorded at amortized cost.

Note 4 Receivable From State of Michigan

The receivable from the State of Michigan of \$1,494.2 million consisted of the following at September 30, 2017:

a. Unemployment Obligation Assessment Debt Service Fund

The receivable from the State of Michigan recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority from the transfer of bond proceeds to the State of Michigan that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by TED from employers, and transferred to the Authority to be used for debt service to pay the principal and interest on the bonds. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$925.1 million at September 30, 2017.

The statement of net position for the governmental activities reported a receivable from the State of Michigan totaling \$939.8 million. The additional receivable of \$14.7 million when compared to the Unemployment Obligation Assessment Debt Service Fund receivable represents amounts recognized as earned under the economic resources measurement focus and the accrual basis of accounting in the statement of net position for accrued interest receivable from the State of Michigan. The Unemployment Obligation Assessment Debt Service Fund utilizes the current financial resources measurement focus and the modified accrual basis of accounting, which does not provide for recognition of the \$14.7 million in revenue because it is not subject to accrual.

b. Municipal Bond Fund - School Loan Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - School Loan Revolving Subfund is collateralized by loans to school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$554.3 million at September 30, 2017.

Note 5 Notes Receivable

The notes receivable of \$440.9 million consisted of the following at September 30, 2017:

a. Municipal Bond Fund

The Authority originated loans to public schools to meet the schools' immediate cash flow needs for spending purposes from the proceeds of its State aid and tax anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was \$390.5 million at September 30, 2017. The notes receivable bore interest ranging from 1.27% to 3.89% during fiscal year 2017.

b. Student Loan Fund

The Authority retained the Class B Notes from the Student Loan Asset-Backed Notes, Series 2015-1, Class A and Class B Taxable LIBOR Floating Rate Notes and Student Loan Asset-Backed Notes, Series 2016-1, Class A-1, Class A-2, and Class B LIBOR Floating Rate Notes. The balance of notes receivable was reported at cost of \$18 million at September 30, 2017. The notes receivable bore variable interest rates that reset monthly and are equal to the one-month LIBOR rate plus 1.50%.

c. Non-Major Fund - Public School Academy Facilities Fund

The Authority originated loans to public school academies to meet the academies' immediate cash flow needs for operating purposes from the proceeds of its public school academy facilities notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was \$32.4 million at September 30, 2017. The notes receivable bore interest ranging from 3.75% to 4.75% during fiscal year 2017.

Note 6 Loans Receivable, Net

Net loans receivable of \$3.0 billion consisted of the following at September 30, 2017:

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of \$14.1 million from Ypsilanti Community Schools for fiscal year 2017. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 8. Scheduled repayments of \$1.4 million are expected to be collected during fiscal year 2018.

b. Municipal Bond Fund - State Revolving Subfund

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. As of September 30, 2017, amounts committed for the Clean Water Program were \$3.9 billion and loans of \$1.9 billion were outstanding. As of September 30, 2017, amounts committed for the Drinking Water Program were \$741.7 million and loans of \$388.2 million were outstanding. Scheduled repayments of \$209.3 million are expected to be collected during fiscal year 2018.

c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities' limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were \$40.1 million as of September 30, 2017, and receivables outstanding were \$30.1 million. Scheduled repayments of \$1.3 million are expected to be collected during fiscal year 2018.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan (FFEL) Program to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's MI-LOAN Program, which are not federally insured. The following are descriptions of the loans and adjustments that comprise the net loans receivable of \$614.8 million:

- (1) Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates based on the bond equivalent rate for the 91-day U.S. Treasury bill, plus a factor of up to 3.25% depending on the status and/or date of disbursement of the loan.
- (2) PLUS Loans - The PLUS interest rate has been a fixed rate of 8.5% since July 1, 2006. Prior to July 1, 2006, interest rates on the PLUS Loans varied annually each July 1, based on the bond equivalent rate for the 91-day U.S. Treasury bill or one-year constant maturity, plus a factor of either 3.25% or 3.10%, depending on when borrowers obtained their first PLUS Loans.
- (3) Consolidation Loans - Interest rates on Consolidation Loans are fixed, calculated by rounding the weighted average of the interest rates on the loans consolidated to the nearest 1/8 of 1%, or variable based on the 91-day U.S. Treasury bill, plus 3.10%, not to exceed 8.25%.
- (4) MI-LOAN Program Loans - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2017, the MI-LOAN Program balance outstanding was \$104.5 million. The MI-LOAN Program's fixed interest rate loans ranged from 5.95% to 9.50%. The MI-LOAN Program's variable interest rate was 2.09% at September 30, 2017. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.
- (5) Allowance - The Authority's Stafford Loans, PLUS Loans, and Consolidation Loans are guaranteed primarily by the Authority's Michigan Guaranty Agency and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2017, the Authority's recorded allowance for FFEL Program loans was \$0.5 million.

MI-LOAN Program loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. As of September 30, 2017, the Authority's recorded allowance for the MI-LOAN Program loans was \$2.6 million.

- (6) Status of Student Loan Programs - On February 15, 2008, origination of new MI-LOAN Program loans was suspended. Also, the U.S. Congress enacted legislation in the form of the Health Care and Education Reconciliation Act of 2010 on March 30, 2010 that eliminated the authorization to originate FFEL Program loans after June 30, 2010.

Note 7 Bonds Receivable

Bonds receivable consist of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 8. During the fiscal year, the Authority purchased local governmental units' municipal bonds for \$317.4 million from the proceeds of the Authority's bond issuance. The annual requirements for governmental units to repay their bonds to the Authority as of September 30, 2017, including principal and interest, were as follows:

Fiscal Years Ending	Principal	Interest	Total
2018	\$ 226,753,000	\$ 179,068,657	\$ 405,821,657
2019	260,242,000	184,043,867	444,285,867
2020	295,273,000	172,776,870	468,049,870
2021	313,895,000	159,960,494	473,855,494
2022	311,244,000	146,452,344	457,696,344
2023 - 2027	1,036,401,000	565,877,110	1,602,278,110
2028 - 2032	751,267,000	360,006,477	1,111,273,477
2033 - 2037	730,595,000	158,266,025	888,861,025
2038 - 2042	205,430,000	55,110,759	260,540,759
2043 and thereafter	95,075,000	7,150,194	102,225,194
Total unadjusted bonds and interest	\$ 4,226,175,000	\$ 1,988,712,797	\$ 6,214,887,797
Amortized premium/discounts	185,333,089		185,333,089
Unamortized accretion for capital appreciation bonds	(1,657,954)		(1,657,954)
Total	\$ 4,409,850,135	\$ 1,988,712,797	\$ 6,398,562,932

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Note 8 Bonds and Notes Payable, Net

a. **Net bonds and notes payable** of \$10,277.7 million consisted of the following at September 30, 2017:

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2017
Tobacco Settlement Debt Service Fund					
Tobacco Settlement Asset-Backed Bonds:					
Series 2006A - Serial	May 17, 2006	\$ 363,115,000	7.31%	June 1, 2034	\$ 299,155,000
Series 2007A - Serial	August 20, 2007	\$ 480,125,000	5.125% to 6%	June 1, 2047	464,065,000
Series 2007B - Capital appreciation (b)	August 20, 2007	\$ 35,649,948	7.25%	June 1, 2052	865,290,000
Series 2007C - Capital appreciation (b)	August 20, 2007	\$ 7,216,749	7.5%	June 1, 2052	195,100,000
Series 2008A - Serial	July 7, 2008	\$ 114,860,000	6.875%	June 1, 2024	114,860,000
Series 2008B - Capital appreciation (b)	July 7, 2008	\$ 29,874,650	8.5%	June 1, 2046	700,625,000
Series 2008C - Capital appreciation (b)	July 7, 2008	\$ 57,673,814	8.875%	June 1, 2058	4,395,870,000
Total Tobacco Settlement Asset-Backed Bonds					\$ 7,034,965,000
Unemployment Obligation Assessment Debt Service Fund					
Unemployment Obligation Assessment Revenue Bonds:					
Series 2012A	June 27, 2012	\$ 1,462,490,000	3% to 5%	July 1, 2019	\$ 500,955,000
Series 2012B	June 27, 2012	\$ 1,204,645,000	5%	July 1, 2022	685,385,000
Total Unemployment Obligation Assessment Revenue Bonds					\$ 1,186,340,000
Municipal Bond Fund - Local Municipalities Subfund					
Municipal State Aid and Tax Anticipation Notes:					
2016I TAN	December 20, 2016	\$ 13,930,000	Variable 3.88955% (c)	October 6, 2017	\$ 4,980,000
2017A-1	August 21, 2017	\$ 185,211,000	1.27%	July 20, 2018	185,211,000
2017A-2	August 21, 2017	\$ 189,129,000	1.49%	July 20, 2018	189,129,000
2017A-3	August 21, 2017	\$ 5,000,000	1.43%	August 21, 2018	5,000,000
2017C	June 29, 2017	\$ 2,300,000	3.35%	August 21, 2018	2,300,000
2017D	August 21, 2017	\$ 4,500,000	2.15%	August 21, 2018	4,500,000
Local Government Loan Program Revenue Bonds:					
Series 1994G - Capital appreciation (b)	December 21, 1994	\$ 7,379,737	7.05% to 7.1%	May 1, 2020	16,125,000
Series 1997C	October 30, 1997	\$ 16,335,000	5.375% to 5.55%	November 1, 2020	365,000
Series 1998A	June 16, 1998	\$ 16,100,000	5.2%	November 1, 2019	415,000
Series 1999C	June 24, 1999	\$ 16,685,000	5.375%	November 1, 2019	160,000
Series 2000A	May 17, 2000	\$ 10,815,000	6%	November 1, 2020	390,000
Series 2000B	November 28, 2000	\$ 5,905,000	5.5%	November 1, 2020	980,000
Series 2002A	July 1, 2002	\$ 30,060,000	4.625% to 5%	November 1, 2025	245,000
Series 2002B	November 1, 2002	\$ 16,790,000	4.25% to 5%	November 1, 2022	995,000
Series 2003B	September 30, 2003	\$ 19,665,000	4.2% to 6%	November 1, 2023	7,485,000
Series 2004A	February 18, 2004	\$ 41,155,000	4% to 6%	May 1, 2034	6,300,000
Series 2004B	May 13, 2004	\$ 26,830,000	4.375% to 5%	May 1, 2022	225,000
Series 2006A	May 10, 2007	\$ 9,825,000	4.3% to 5%	May 1, 2019	585,000
Series 2007A	March 29, 2007	\$ 21,875,000	4% to 4.25%	May 1, 2029	10,775,000
Series 2007B	August 3, 2007	\$ 98,435,000	5% to 5.25%	December 1, 2034	24,495,000
Series 2007C	December 19, 2007	\$ 31,080,000	4% to 5%	May 1, 2031	22,455,000
Series 2007D	December 28, 2007	\$ 19,335,000	4% to 5%	November 1, 2032	10,865,000
Series 2009A	March 18, 2009	\$ 28,430,000	4.25% to 5.5%	May 1, 2024	28,100,000
Series 2009B	March 31, 2009	\$ 34,020,000	4.75% to 7%	November 1, 2028	4,200,000
Series 2009C	September 23, 2009	\$ 45,795,000	4% to 5%	May 1, 2024	3,270,000
Series 2010A	March 31, 2010	\$ 27,005,000	4% to 5%	May 1, 2021	7,505,000
Series 2010B	May 18, 2010	\$ 38,245,000	5.4% to 6.7%	May 1, 2027	26,555,000
Series 2010C	May 25, 2010	\$ 6,710,000	5.1% to 6.55%	May 1, 2030	6,260,000
Series 2010D	September 30, 2010	\$ 14,290,000	3.125% to 5%	June 1, 2030	4,270,000
Series 2010E	December 16, 2010	\$ 100,000,000	6.337% to 8.369%	November 1, 2035	94,025,000
Series 2011A	March 3, 2011	\$ 31,565,000	5.375% to 6.375%	November 1, 2025	17,125,000
Series 2011B	April 13, 2011	\$ 8,000,000	3.75% to 6%	November 1, 2035	6,990,000
Series 2011C	May 3, 2011	\$ 7,710,000	6.2% to 6.5%	May 1, 2026	6,850,000
Series 2011D	June 29, 2011	\$ 8,975,000	3.375% to 5%	May 1, 2020	6,250,000
Series 2011E	September 20, 2011	\$ 1,775,000	3.25% to 4.75%	May 1, 2026	1,185,000
Series 2011F	October 28, 2011	\$ 14,960,000	4% to 5.25%	October 1, 2041	14,100,000
Series 2012B	August 8, 2012	\$ 18,880,000	2% to 4%	November 1, 2028	10,945,000
Series 2012D	October 18, 2012	\$ 7,950,000	3% to 4%	May 1, 2032	6,650,000
Series 2013A	May 14, 2013	\$ 9,370,000	2% to 4%	May 1, 2033	7,920,000
Series 2013C	October 2, 2013	\$ 30,000,000	4% to 5.25%	October 1, 2043	29,575,000
Series 2014B	July 2, 2014	\$ 184,960,000	4% to 5%	July 1, 2044	175,840,000
Series 2014C	September 4, 2014	\$ 935,860,000	5%	July 1, 2044	837,920,000
Series 2014D	September 4, 2014	\$ 854,850,000	2.85% to 5%	July 1, 2037	735,660,000
Series 2014E	September 25, 2014	\$ 4,070,000	5.15%	May 1, 2021	2,850,000
Series 2014F	December 10, 2014	\$ 275,000,000	3.4% to 4.6%	October 1, 2029	245,000,000
Series 2014H	October 30, 2014	\$ 295,350,000	1.524% to 5%	October 1, 2039	274,795,000
Series 2015A	March 12, 2015	\$ 192,580,000	4.422% to 5%	May 1, 2025	140,870,000
Series 2015B	June 29, 2016	\$ 16,750,000	3.16% to 4.8%	May 1, 2045	16,750,000

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Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2017
Series 2015C	December 15, 2015	\$ 197,660,000	5%	July 1, 2035	197,160,000
Series 2015D	December 15, 2015	\$ 126,665,000	5%	July 1, 2035	126,160,000
Series 2015E	November 30, 2015	\$ 4,955,000	3% to 4%	November 1, 2032	4,745,000
Series 2016A	March 29, 2016	\$ 14,470,000	5%	May 1, 2029	13,710,000
Series 2016B	March 26, 2016	\$ 5,225,000	1.74% to 2.61%	May 1, 2022	5,225,000
Series 2016C	August 11, 2016	\$ 606,180,000	1.39% to 5%	November 1, 2035	569,670,000
Series 2016D	September 29, 2016	\$ 226,380,000	3.55% to 3.9%	March 31, 2023	196,380,000
Series 2017A	June 19, 2017	\$ 19,300,000	3.95% to 4.375%, Variable 3.815669% (d)	September 25, 2029	19,300,000
Series 2017B	June 15, 2017	\$ 6,380,000	Variable 3.89768% (e)	May 3, 2021	6,380,000
Series 2017C	September 14, 2017	\$ 291,755,000	2.91%	May 1, 2024	291,755,000
School Loan Revenue Bonds:					
Series 2013	August 20, 2013	\$ 18,615,000	4% to 5%	August 1, 2026	14,000,000
Total Municipal Bond Fund - Local Municipalities Subfund					\$ 4,649,925,000
Municipal Bond Fund - State Revolving Subfund:					
Series 1998, Clean Water Revolving Fund Revenue Bonds	July 15, 1998	\$ 151,165,000	4.750%	October 1, 2020	\$ 2,320,000
Series 2004, Clean Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 286,605,000	4.75% to 5%	October 1, 2026	15,005,000
Series 2004, Drinking Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 67,895,000	5%	October 1, 2026	3,855,000
Series 2005, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 103,630,000	4.75% to 5%	October 1, 2027	8,025,000
Series 2005, Drinking Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 79,480,000	4.75% to 5%	October 1, 2027	5,275,000
Series 2006, Clean Water Revolving Fund Revenue Bonds	November 2, 2006	\$ 150,000,000	4.2% to 5%	October 1, 2026	13,895,000
Series 2007, Clean Water Revolving Fund Revenue Bonds	October 25, 2007	\$ 278,040,000	4.25% to 5%	October 1, 2029	50,655,000
Series 2009, Clean Water Revolving Fund Refunding Bonds	June 30, 2009	\$ 150,805,000	4% to 5%	October 1, 2029	20,400,000
Series 2010, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	\$ 178,740,000	4% to 5%	October 1, 2030	31,405,000
Series 2010, Clean Water Revolving Fund Refunding Bonds	March 18, 2010	\$ 67,420,000	5%	October 1, 2020	24,390,000
Series 2011, Clean Water Revolving Fund Refunding Bonds	November 3, 2011	\$ 225,860,000	5%	October 1, 2024	144,530,000
Series 2011, Drinking Water Revolving Fund Refunding Bonds	November 3, 2011	\$ 56,860,000	3% to 5%	October 1, 2024	35,795,000
Series 2012, Clean Water Revolving Fund Revenue Bonds	April 26, 2012	\$ 131,410,000	4% to 5%	October 1, 2032	121,150,000
Series 2012, Clean Water Revolving Fund Refunding Bonds	July 10, 2012	\$ 89,595,000	5%	October 1, 2021	89,595,000
Series 2012, Drinking Water Revolving Fund Refunding Bonds	July 10, 2012	\$ 16,755,000	5%	October 1, 2020	16,755,000
Series 2013, Clean Water Revolving Fund Refunding Bonds	February 20, 2013	\$ 137,745,000	5%	October 1, 2026	114,570,000
Series 2013, Drinking Water Revolving Fund Refunding Bonds	February 20, 2013	\$ 31,110,000	5%	October 1, 2026	25,780,000
Series 2014A, Clean Water Revolving Fund Refunding Bonds	October 9, 2014	\$ 61,585,000	2.814%	October 1, 2027	55,930,000
Series 2014A, Drinking Water Revolving Fund Refunding Bonds	October 9, 2014	\$ 42,655,000	2.814%	October 1, 2027	38,810,000
Series 2014B, Clean Water Revolving Fund Refunding Bonds	October 23, 2014	\$ 40,020,000	2.095%	October 1, 2020	21,125,000
Series 2015A, Clean Water Revolving Fund Refunding Bonds	June 11, 2015	\$ 77,475,000	2.43%	October 1, 2028	76,275,000
Series 2015B, Clean Water Revolving Fund Refunding Bonds	December 21, 2015	\$ 112,025,000	2.18%	October 1, 2028	149,035,000
Series 2016B, Clean Water Revolving Fund Revenue Bonds	November 17, 2016	\$ 104,475,000	2% to 5%	October 1, 2036	104,475,000
Series 2016B, Clean Water Revolving Fund Refunding Bonds	November 17, 2016	\$ 188,640,000	2% to 5%	October 1, 2030	188,640,000
Total Municipal Bond Fund - State Revolving Subfund					\$ 1,357,690,000
Municipal Bond Fund - School Loan Revolving Subfund:					
Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 1.13% (f)	September 1, 2050	\$ 150,000,000
Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 1.15% (f)	September 1, 2050	150,000,000
Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 1.15% (f)	September 1, 2050	150,000,000
Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 85,000,000	4.996% to 6.496%	September 1, 2025	85,000,000
Series 2014A, Federally Taxable Bonds SLRF Revenue Bonds	April 10, 2014	\$ 150,000,000	Variable 1.10% (f)	September 1, 2053	150,000,000
Series 2015A, Federally Taxable Bonds SLRF Revenue Bonds	April 22, 2015	\$ 200,000,000	3.396% to 4.345% (f)	September 1, 2045	200,000,000
Total Municipal Bond Fund - School Loan Revolving Subfund					\$ 885,000,000
Student Loan Fund					
Student Loan Bonds:					
Series 22-A, Student Loan Revenue Refunding Bonds	September 25, 2013	\$ 180,000,000	Variable 1.03% (f)	September 1, 2042	79,500,000
Series 25-A, Student Loan Revenue Refunding Bonds	December 4, 2014	\$ 168,000,000	3.5% to 5%	November 1, 2031	144,000,000
Student Loan Notes:					
Series 2015-1 (26-A), Student Loan Asset-Backed Notes-Class	March 24, 2015	\$ 302,600,000	Variable 1.98444% (g)	April 29, 2030	189,361,000
Series 2015-1 (26-A), Student Loan Asset-Backed Notes-Class	March 24, 2015	\$ 9,000,000	Variable 2.73444% (h)	April 28, 2033	9,000,000
Series 2016-1 (27-A), Student Loan Asset-Backed Notes-Class	January 15, 2016	\$ 273,000,000	Variable 1.8622% (i)	January 2, 2029	194,897,000
Series 2016-1 (27-A), Student Loan Asset-Backed Notes-Class	January 15, 2016	\$ 9,000,000	Variable 2.7372% (h)	January 3, 2034	9,000,000
Total Student Loan Fund					\$ 625,758,000
Non-Major Funds					
Public School Academy Facilities Notes:					
Series 2017B-1	August 21, 2017	\$ 24,300,000	2.34%	August 20, 2018	\$ 24,300,000
Series 2017B-2	August 21, 2017	\$ 7,735,000	3.18%	August 20, 2018	7,735,000
Series 2017E	September 15, 2017	\$ 2,350,000	3.75%	August 20, 2018	2,350,000
Total Non-Major Funds					\$ 34,385,000

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- (a) Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2017 or the September 30, 2017 effective rates for variable rate bonds and notes.
- (b) Capital appreciation bonds are reported at ultimate maturity value.
- (c) Interest rate changes monthly and is equal to the sum of thirty-day LIBOR rate plus 4.75% per annum, multiplied by 65.01%, not to exceed 12% per annum.
- (d) 2017A-3 interest rate changes monthly and is equal to the sum of one-month LIBOR rate in effect on each Reset Date multiplied by 70% plus 2.95%.
- (e) Interest rate changes monthly and is equal to the sum of thirty-day LIBOR rate plus 4.75% per annum, multiplied by 65.10%; not to exceed the maximum rate allowed by law.
- (f) Interest rate changes every 7 days based on a market rate determined by the assigned remarketing agent.
- (g) Interest rate changes every business day based on the LIBOR daily floating rate plus 75 basis points.
- (h) Interest rate changes monthly based on the one-month LIBOR floating rate plus 150 basis points.
- (i) Interest rate changes monthly based on the one-month LIBOR floating rate plus 62.5 basis points.

b. Annual debt service requirements for the Authority to service bond and note debt outstanding as of September 30, 2017, including both principal and interest, are as follows (in millions):

Fiscal Years Ending	Tobacco Settlement Debt Service Fund		Unemployment Obligation Assessment Debt Service Fund		Municipal Bond Fund - Local Municipalities Subfund		Municipal Bond Fund - State Revolving Subfund		Municipal Bond Fund - School Loan Revolving Subfund		Student Loan Fund		Non-Major Funds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 16.7	\$ 57.1	\$ 240.6	\$ 57.4	\$ 637.9	\$ 201.0	\$ 141.5	\$ 54.2	\$ 3.0	\$ 19.9	\$ 138.7	\$ 14.2	\$ 34.4	\$ 0.5	\$ 1,212.9	\$ 404.3
2019	17.9	56.0	260.3	45.3	261.4	184.6	139.0	48.2	4.0	19.8	59.2	12.0			741.9	365.9
2020	18.9	54.9	281.1	32.1	296.5	173.3	134.8	42.3	6.0	19.6	59.2	10.6			796.5	332.7
2021	20.1	53.7	299.2	17.8	315.2	160.4	129.9	36.6	12.0	19.2	59.2	9.1			835.7	296.8
2022	43.0	52.4	105.1	2.6	312.6	146.9	114.0	31.3	16.0	18.6	59.2	7.6			649.9	259.4
2023 - 2027	228.1	208.7			1,044.0	566.7	442.3	94.1	114.2	77.3	211.8	18.7			2,040.3	965.6
2028 - 2032	162.3	149.7			751.3	360.0	210.3	26.9	35.7	60.5	38.3	3.3			1,197.8	600.4
2033 - 2037	130.6	92.5			730.6	158.3	45.8	3.0	48.2	49.8					955.2	303.6
2038 - 2042	105.4	60.3			205.4	55.1			28.8	42.0					339.6	157.4
2043 - 2047	835.7	24.9			95.1	7.2			17.3	36.0					948.1	68.0
2048 - 2052	1,060.4								450.0	24.0					1,510.4	24.0
2053 - 2057									150.0	1.7					150.0	1.7
2058 - 2062	4,395.9														4,395.9	
Total unadjusted bonds, notes, and interest	\$ 7,035.0	\$ 810.2	\$ 1,186.3	\$ 155.2	\$ 4,649.9	\$ 2,013.5	\$ 1,357.7	\$ 336.6	\$ 885.0	\$ 388.3	\$ 625.8	\$ 75.5	\$ 34.4	\$ 0.5	\$ 15,774.1	\$ 3,779.7
Unamortized premium			66.8		217.1		108.2				3.2				395.3	
Unamortized discounts	(15.6)				(0.2)										(15.8)	
Unamortized accretion for capital appreciation bonds	(5,874.2)				(1.7)										(5,875.9)	
Total	\$ 1,145.1	\$ 810.2	\$ 1,253.2	\$ 155.2	\$ 4,865.2	\$ 2,013.5	\$ 1,465.9	\$ 336.6	\$ 885.0	\$ 388.3	\$ 628.9	\$ 75.5	\$ 34.4	\$ 0.5	\$ 10,277.7	\$ 3,779.7

(a) For Series 26 and Series 27 in the Student Loan Fund, the redemptions were calculated prior to the maturity date because the initial purchaser estimated an earlier final redemption based on cash flow estimations.

c. Changes in long-term debt for the fiscal year ended September 30, 2017 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Tobacco Settlement Asset-Backed Bonds	\$ 7,041,315,000	\$	\$ (6,350,000)	\$ 7,034,965,000	\$ 16,700,000	\$ 7,018,265,000
Unemployment Obligation Assessment Revenue Bonds	1,545,555,000		(359,215,000)	1,186,340,000	240,640,000	945,700,000
Total Governmental Activities	\$ 8,586,870,000	\$ 0	\$ (365,565,000)	\$ 8,221,305,000	\$ 257,340,000	\$ 7,963,965,000
Business-Type Activities						
Local Municipalities Subfund State Aid and Tax Anticipation Notes	456,350,000	400,070,000	(465,300,000)	391,120,000	391,120,000	
Local Municipalities Subfund Local Government Loan Program Bonds	4,170,810,000	317,435,000	(243,440,000)	4,244,805,000	245,388,000	3,999,417,000
Local Municipalities Subfund School Loan Revenue Bonds	15,350,000		(1,350,000)	14,000,000	1,405,000	12,595,000
State Revolving Subfund	1,469,032,000	316,900,107	(428,242,107)	1,357,690,000	141,535,000	1,216,155,000
School Loan Revolving Subfund	885,000,000			885,000,000	3,000,000	882,000,000
Student Loan Bonds	259,500,000		(36,000,000)	223,500,000	90,500,000	133,000,000
Student Loan Notes	491,306,000		(89,048,000)	402,258,000	48,235,041	354,022,959
Public School Academy Facilities Notes	39,440,000	34,385,000	(39,440,000)	34,385,000	34,385,000	
Total Business-Type Activities	\$ 7,786,788,000	\$ 1,068,790,107	\$ (1,302,820,107)	\$ 7,552,758,000	\$ 955,568,041	\$ 6,597,189,959
Total Bonds and Notes Payable	\$ 16,373,658,000	\$ 1,068,790,107	\$ (1,668,385,107)	\$ 15,774,063,000	\$ 1,212,908,041	\$ 14,561,154,959

d. Refunded Bonds and Notes

State Revolving Fund

On November 17, 2016, the Authority issued \$293.1 million in Clean Water Revolving Fund Revenue and Revenue Refunding Bonds, Series 2016B under the State Revolving Fund.

The Bonds refunded an \$84.0 million portion of the Clean Water Revenue Refunding Bond, Series 2009. The Bonds were sold with a true interest cost of 2.07% and garnering a Net Present Value Savings of \$10.5 million, or approximately 11.41% of the refunded bonds.

The Bonds refunded a \$104.6 million portion of the Clean Water Revenue Bonds, Series 2010. The Bonds were sold with a true interest cost of 2.25% and garnering a Net Present Value Savings of \$10.1 million, or approximately 9.12% of the refunded bonds.

The proceeds were placed into an escrow account and will be used to redeem the Clean Water Revenue Refunding Bonds, Series 2009 on October 1, 2019 and Clean Water Revenue Bonds, Series 2010 on October 1, 2020.

Proceeds from the November 17, 2016 bond issue were also used to repay the outstanding principal and interest on the Series 2016A Bond Anticipation Note in the amount of \$55.8 million.

e. Defeased Bonds

The Authority has defeased certain Municipal Bond Fund bonds by depositing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased was \$389 million at September 30, 2017.

f. Demand Bonds

(1) School Loan Revolving Fund

Included in noncurrent liabilities is \$450.0 million of School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010A, 2010B, and 2010C, with a nominal maturity of September 1, 2050. The bonds were issued in the amount of \$450.0 million (\$150.0 million for each of A, B, and C) on December 15, 2010 to refund prior bonds and to make qualified loans to school districts.

The bonds are subject to purchase on the demand of the holder at a price equal to the purchase price on five days' notice and delivery to the tender agent. The remarketing agents (Merrill Lynch, Pierce, Fenner & Smith Incorporated - Series 2010A, PNC Capital Markets LLC - Series 2010B, and BMO Capital Markets GKST, Inc. - Series 2010C) are authorized to offer for sale and use their best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agents to be the minimum interest rate that would enable the remarketing agents to sell all of the bonds on the effective date at a price equal to the principal amount. The fee for the remarketing agents is 0.085% of the outstanding balance.

Under irrevocable letters of credit issued by Bank of America, N.A. (Series 2010A), PNC Bank, National Association (Series 2010B), and Bank of Montreal (Series 2010C), the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid through December 12, 2019. If not previously extended, the letters automatically terminate. All amounts drawn on the letters of credit must be paid on the earliest of the 90th day following the draw, the conversion date, the redemption of bonds, the date of the sale of bank bonds, the regularly scheduled quarterly interest payment date, or the replacement of the letters. Any liquidity advance on the irrevocable letters of credit not repaid in 90 days, or otherwise, converts to a term loan payable in six semi-annual installments. As of September 30, 2017, there have not been any draws on the letters of credit. The banks issuing the letters of credit are paid a fee based on a pricing matrix that takes into account the unenhanced ratings of the bonds. At the current ratings, the fee is 0.65% of the outstanding balance.

Also included in long-term debt is \$150.0 million of Federally Taxable Bonds School Loan Revolving Fund Revenue Bonds, Series 2014A, with a nominal maturity of September 1, 2053. The bonds were issued in the amount of \$150.0 million on April 10, 2014 to make qualified loans to school districts.

The bonds are subject to purchase on the demand of the holder at a price equal to the purchase price on five days' notice and delivery to the tender agent. The remarketing agent (J.P. Morgan Securities LLC) is authorized to offer for sale and use its best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate that would enable the remarketing agent to sell all of the bonds on the effective date at a price equal to the principal amount. The fee for the remarketing agent is 0.085% of the outstanding balance.

Under an irrevocable transferrable letter of credit issued by JPMorgan Chase Bank, N.A., the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through December 12, 2019. If not previously extended, the letter automatically terminates. All amounts drawn on the letter of credit must be paid on the earliest of the 90th day following the draw, the conversion date, the redemption of bonds, the date of the sale of bank bonds, the regularly scheduled quarterly interest payment date, and the replacement of the letter. Any liquidity advance on the irrevocable letters of credit not repaid in 90 days, or otherwise, converts to a term loan payable in six semi-annual installments. As of September 30, 2017, there have not been any draws on the letter of credit. The letter of credit bank is paid a fee based on a pricing matrix that takes into account the unenhanced ratings of the bonds. At the current ratings, the fee is 0.65% of the outstanding balance.

(2) Student Loan

Included in current liabilities is \$79.5 million of Student Loan Revenue Refunding Bonds, Series 22-A, with a nominal maturity of September 1, 2042. The bonds were issued in the amount of \$180.0 million on September 25, 2013 to refund outstanding portions of prior Student Loan Revenue Bonds and Refunding Revenue Bonds.

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agent (Morgan Stanley & Co., LLC) and the tender agent. The remarketing agent is authorized to offer for sale

and use its best efforts to sell any bonds that are remarketed pursuant to the supplemental indenture. The interest rate on the bonds is reset weekly at the rate determined by the remarketing agent to be the minimum interest rate that would enable the remarketing agent to sell all of the bonds on the effective date at a price equal to the principal amount plus accrued interest. The fee for the remarketing agent is 0.10% of the outstanding balance.

Under an irrevocable letter of credit issued by State Street Bank and Trust, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit is valid through September 25, 2018. If not previously extended, the letter automatically terminates on this date. All amounts drawn on the letter of credit must be paid on the earliest of the date of remarketing of the bank bonds, the date the bank bonds become due, 180 days after the drawing, replacement of the letter, the termination date, or the immediately succeeding interest payment date. As of September 30, 2017, there have not been any draws on the letter of credit. The bank issuing the letter of credit is paid a fee of 0.60% of the outstanding balance on the bonds.

Note 9 Conduit Debt Obligations

The Authority has issued limited obligation bonds to provide capital financing for eligible borrowers that are not part of the Authority's financial reporting entity. Typically, these borrowings are repayable only from the borrowers' repayment of loans, undisbursed proceeds, and related interest earnings and the Authority has no obligation for this debt. Therefore, the conduit debt obligations are not recorded as liabilities of the Authority.

The Authority issues limited obligation bonds to finance loans to private or nonpublic entities, nonprofit institutions of higher education, qualified public or private educational facilities, and healthcare providers for capital improvements. The Authority issued limited obligation bonds through the Higher Education Facilities Fund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Michigan Strategic Fund.

The Authority has defeased, in substance, certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Economic gains and accounting gains and losses upon in-substance defeasance inure to the benefit of the facility for which the bonds were issued and, accordingly, are not reflected in the Authority's financial statements.

The total outstanding limited obligation bonds and defeased and defeased portions as of September 30, 2017 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	\$ 14,990,000	\$	\$ 953,280,000	\$	\$ 968,270,000
Undefeased	529,117,846	223,415,000	7,190,967,672	50,565,761	7,994,066,279
Total outstanding	<u>\$ 544,107,846</u>	<u>\$ 223,415,000</u>	<u>\$ 8,144,247,672</u>	<u>\$ 50,565,761</u>	<u>\$ 8,962,336,279</u>

Note 10 Employee Benefits

a. Plan Descriptions

The Authority participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as the Authority. The defined benefit and defined contribution pension plans are part of the Michigan State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The Michigan State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <www.michigan.gov/ors>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, P.O. Box 30171, Lansing, Michigan 48909-7671.

b. Funding Policy

The State funds pension and other postemployment benefits on a prefunded basis. For the defined benefit plan, the Authority was required to contribute 3.26% of payroll for the employer portion of the defined benefit pension. Employees participating in the defined benefit plan were required to contribute 4% of their compensation for pension benefits. For the defined contribution plan, the Authority was required to contribute 3.7% of payroll with an additional match of up to 3%. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the Internal Revenue Service allowed maximum. Employees participating in the defined contribution plan vest in employer contributions at 50% after two years of service, 75% after three years of service, and 100% after four years of service. Forfeited employer contributions are retained within the defined contribution plan and are used toward future employer required contributions. The Authority was required to contribute 43.29% of payroll for the employer cost of other postemployment benefits. The Authority transferred \$40,000, \$178,000, and \$1.7 million to the State for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits, respectively, in fiscal year 2017. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

c. Postemployment Benefits

The Authority participates in the State of Michigan's single-employer postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Authority was required to contribute 21.05% of payroll for the employer cost of other postemployment benefits in fiscal year 2017. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into 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 or \$1,000 for participants who are less than 60 years old at termination.

Note 11 Revenue from Federal Government

a. Business-Type Activities and Proprietary Funds

(1) Student Loan Fund

The USDOE pays the Student Loan Fund an interest subsidy on subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. The interest subsidy for fiscal year 2017 totaled \$2.1 million. In addition, federal legislation provides for a special allowance that is principally an incentive payment made so that money market conditions and interest rates will not impede the issuance of student loans. The USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a one-month LIBOR yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance received for fiscal year 2017 was \$1.2 million. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE. The negative special allowance paid for fiscal year 2017 totaled \$8.7 million.

(2) Non-Major Fund - Michigan Guaranty Agency - Operating Fund

The Michigan Guaranty Agency - Operating Fund receives federal funds for fees related to defaulted student loans. The account maintenance fee is 0.06% of the original principal amount of outstanding loans for administering the accounts. In addition, the Michigan Guaranty Agency - Operating Fund receives federal funds for its share of retention on loan recoveries and loans rehabilitated. For loan recoveries, the retention rate is 16.0%. For loans rehabilitated, MGA receives 100% of interest and collection costs.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Michigan Guaranty Agency Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on MGA's trigger default rate. All defaulted loans are currently reimbursed by the Federal Government at 100% unless MGA's trigger default rate exceeds 5%. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2017 was 1.40%.

Note 12 Contingencies

a. Governmental Activities and Tobacco Settlement Fund - Master Settlement Agreement (MSA) and Purchase Agreement

In November 1998, an MSA was entered into by 46 states, six other U.S. jurisdictions, and four major tobacco companies. The MSA, as it might be amended from time to time, sets forth the schedule and calculations of payments to be made by the tobacco companies to the states. These payments are subject to various adjustments and offsets, some of which could be material.

In calendar years 2006 and 2007, the Michigan Tobacco Settlement Finance Authority and the State

entered into purchase agreements to purchase the right, title, and interest in and to 13.34% and 10.77%, respectively, of all TSR that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in calendar years 2008 and 2010, respectively.

Future tobacco settlement collections are contingent upon future tobacco product sales and are subject to various adjustments as outlined in the MSA. Because of the uncertainty of the factors affecting tobacco product sales and the various adjustments, the Authority estimates the amount of tobacco settlement payment that will be received in April of each year based on tobacco product sales from the prior calendar year.

b. Fiduciary Fund - Michigan Guaranty Agency (MGA) Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. All defaulted loans are currently reimbursed by the Federal Government at 100% unless MGA's trigger default rate exceeds 5%. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2017.

In the event of future adverse default experience in which the trigger default rate exceeds 5% but less than 9%, the federal government's reinsurance rate could be as low as 85%. In addition, if MGA's trigger default rate exceeds 9%, the federal government's reinsurance rate could be as low as 75%; therefore, MGA could be liable for up to 25% of defaulted loans. Although management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was \$367.6 million as of September 30, 2017. Management does not expect that all guaranteed loans could default in one year.

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee outstanding loans in accordance with the Higher Education Act of 1965, as amended. Management believes MGA was in compliance with this requirement as of September 30, 2017.

Note 13 General Information on Employee Pension Plans

a. Plan Description

The Michigan State Employees' Retirement System (the MSERS) 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 establishes the board's authority to promulgate or amend the provisions of the MSERS. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The executive order establishes the board's authority to promulgate or amend the provision of the MSERS. The board consists of nine members:

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor
- One current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor

- One member of the general public appointed by the Governor

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees.

The MSERS 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. The report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

b. Benefits Provided

- (1) Introduction - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, the 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. MSERS also provides duty disability, non-duty disability, and survivor benefits.

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

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

- (2) 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 defined benefit (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 defined contribution (DC) plan. The 4% contribution began April 1, 2012 and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they

receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

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

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

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count toward 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.

- (3) 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 Public Act 264 of 2011, the 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, 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, 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, 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.
2. Age 55 with 30 or more years of credited service.
3. Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced by 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.
2. Age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position.

- (4) 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 Health and Human Services employees subject to reduction in force lay-offs by reason of deinstitutionalization.
- (5) 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 nonduty disability pension. The nonduty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.
- (6) 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.
- (7) 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.
- (8) 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:
 - *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% option or the 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 the 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. To calculate this benefit, members choosing this option must provide the Office of Retirement Services (ORS) with an estimate from the Social Security Administration Office. The actual amount received from Social Security may vary from the estimate.

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

c. Contributions

(1) Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% of compensation to MSERS. In addition, members may voluntarily contribute to MSERS 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.

(2) Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by MSERS'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 2017, the component unit's contribution rate was 25.50% of the defined benefit employee wages and 22.24% of the defined contribution employee wages. The Authority's contribution to MSERS for the fiscal year ended September 30, 2017 was \$940,163.

d. Actuarial Assumptions

The Authority's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 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% to 12.5%, including wage inflation at 3.5%
Investment rate of return	8%
Cost-of-living pension adjustment	3% annual non-compounded with maximum annual increase of \$300 for those eligible

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

Actuarial assumptions used in the September 30, 2016 valuation were based on the results of an actuarial experience study covering the period from October 1, 2007 through September 30, 2012.

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, 2016 are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return*
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	100.0 %	

* Rate of return does not include 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.

f. Net Pension Liability

At September 30, 2017, the Authority reported a liability of \$6,877,499 for its proportionate share of MSERS's net pension liability. This liability was allocated by full-time equivalent (FTE) count to the three operating funds of the Authority, which include the Student Loan Fund, a major fund; the Michigan Guaranty Agency - Operating Fund, a non-major fund; and the Michigan Finance Authority - Operating Fund, a non-major fund.

The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015 and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the Authority's required pension contributions received by MSERS during the measurement period from October 1, 2015 through September 30, 2016, relative to the total required employer contributions from all of MSERS's participating employers. At September 30, 2016, the Authority's proportion was 0.130%.

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%
Authority's proportionate share of the net pension liability	\$ 8,830,558	\$ 6,877,499	\$ 5,191,966

h. Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2017, the Authority's recognized pension expense was \$411,145. At September 30, 2017, 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
Difference between expected and actual experience	\$ 822	\$
Net difference between projected and actual earnings on investments	154,513	
Change in proportion and difference between actual contributions and proportionate share of contributions		66,264
Authority's contributions subsequent to the measurement date	940,163	
Total	\$ 1,095,498	\$ 66,264

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 fiscal year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense Amount
2018	\$ 84,171
2019	18,729
2020	(177,424)
2021	(14,547)

Note 14 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and employee medical benefits. The State of Michigan is self-insured and provides coverage to the Authority for these potential losses. Additional information on risk management can be found in the footnotes of the *State of Michigan Comprehensive Annual Financial Report*. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 15 Subsequent Events

a. **Municipal Bond Fund**

On November 16, 2017, the Authority issued \$124.5 million of delayed draw Michigan Transportation Fund Revenue Bonds within the Municipal Bond Fund – Local Municipalities Subfund. At closing, \$1.0 million of bond proceeds were drawn and the remaining proceeds will be drawn through 2020.

b. **Public School Academy Facilities Fund**

On October 25, 2017, the Authority issued \$498,000 in State Aid Revenue Notes within the Public School Academy Facilities Fund.

c. **Limited Obligation Bonds**

On October 12, 2017, the Authority issued limited obligation bonds of \$102.5 million within the Healthcare Finance Fund.

Note 16 Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Authority to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan State Employees' Retirement System. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2020.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. The Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The Authority is currently evaluating the impact this standard

will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2018.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2018.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2021.

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

Michigan Finance Authority

GOVERNMENTAL GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended September 30, 2017

<u>Statutory/Budgetary Basis</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Beginning budgetary fund balance	\$ 1,547,571	\$ 1,547,571	\$ 1,547,571	\$ 0
Resources (inflows)				
Tobacco settlement revenue	\$ 407,324	\$ 407,324	\$ 407,324	\$ 0
Miscellaneous	8,144	8,144	8,144	0
Total resources (inflows)	\$ 415,468	\$ 415,468	\$ 415,468	\$ 0
Amount available for uses (outflows)	\$ 1,963,039	\$ 1,963,039	\$ 1,963,039	\$ 0
Uses (outflows)	\$ 358,733	\$ 358,733	\$ 358,733	\$ 0
Total uses (outflows)	\$ 358,733	\$ 358,733	\$ 358,733	\$ 0
Ending budgetary fund balance	\$ 1,604,306	\$ 1,604,306	\$ 1,604,306	\$ 0

See accompanying note to required supplementary information.

Michigan Finance Authority

GOVERNMENTAL GENERAL FUND
BUDGETARY COMPARISON SCHEDULE BUDGET-TO-GAAP RECONCILIATION
For the Fiscal Year Ended September 30, 2017

Sources/inflows of resources

Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule \$ 1,963,039

Differences - Budget to GAAP:

Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes (1,547,571)

Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance \$ 415,468

Uses/outflows of resources

Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule \$ 358,733

Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance \$ 358,733

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

Note 1 Statutory/Budgetary Presentation

The Tobacco Settlement Debt Service Fund enabling legislation, Act 226, P.A. 2005, and the Unemployment Obligation Assessment Debt Service Fund enabling legislation, Act 267, P.A. 2011, provide for the Authority to engage the services of financial advisors and experts, legal counsel, placement agents, underwriters, appraisers and other advisors, consultants, and fiduciaries as may be necessary to effectuate the purposes of the acts. The Michigan Finance Authority bond official statements establish authorization to pay applicable administrative expenditures.

The budgetary comparison schedule presents the original and final budget for fiscal year 2017, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the original budget reflects the final budget, and the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

**Schedule of the Michigan Finance Authority’s Proportionate Share of Net Pension Liability
State Employees’ Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the Net Pension Liability	0.130%	0.137%	0.129%
Proportionate Share of the Net Pension Liability	\$ 6,877,499	\$ 7,515,042	\$ 6,637,870
Covered-Employee Payroll	\$ 3,402,067	\$ 3,684,273	\$ 4,009,269
MFA’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	202.16%	203.98%	165.56%
Plan fiduciary net position as a percentage of the total pension liability	67.48%	66.11%	68.07%

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year.

This schedule is built prospectively upon implementation of GASB Statement No. 68 and will show 10 years of data once it becomes available.

**Schedule of Michigan Finance Authority’s Contributions
State Employees’ Retirement Plan**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contribution	\$ 940,163	\$ 883,378	\$ 1,020,121
Contributions in relation to the statutorily required contribution	\$ 940,163	\$ 883,378	\$ 1,020,121
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 3,402,067	\$ 3,684,273	\$ 4,009,269
Contributions as a percentage of covered-employee payroll	27.64%	23.98%	25.44%

This schedule is built prospectively upon implementation of GASB Statement No. 68 and will show 10 years of data once it becomes available.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY

Note 1 Pension Funding

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 Authority'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 one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution For Fiscal Year 2017

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	21 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	2.5%
Salary Increases	3.5% 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 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 using 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



SUPPLEMENTAL FINANCIAL STATEMENTS

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Michigan Finance Authority

**NON-MAJOR FUNDS
COMBINING STATEMENT OF NET POSITION
September 30, 2017**

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 8,819,610	\$ 305,140	\$ 1,724,717	\$ 10,849,467
Receivable from federal government	414,036			414,036
Receivable from other funds	1,605,021	496,661		2,101,682
Interest receivable	517,964	126,134	85,371	729,469
Investments	13,891,418	1,681,397	35,008	15,607,823
Notes receivable			32,409,000	32,409,000
Other current assets	7,904	578,624		586,528
Total current assets	\$ 25,255,953	\$ 3,187,956	\$ 34,254,096	\$ 62,698,005
Noncurrent assets:				
Investments	\$ 40,769,809	\$ 13,836,222	\$	\$ 54,606,031
Total noncurrent assets	\$ 40,769,809	\$ 13,836,222	\$ 0	\$ 54,606,031
Total assets	\$ 66,025,762	\$ 17,024,178	\$ 34,254,096	\$ 117,304,036
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	\$ 547,948	\$ 254,000	\$	\$ 801,948
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	\$	\$	\$ 5,275	\$ 5,275
Bonds and notes payable, net			34,385,000	34,385,000
Interest payable			55,465	55,465
Total current liabilities	\$ 0	\$ 0	\$ 34,445,740	\$ 34,445,740
Noncurrent liabilities:				
Compensated absences	\$ 287,889	\$ 123,038	\$	\$ 410,927
Net pension liability	3,493,333	1,746,666		5,239,999
Total noncurrent liabilities	\$ 3,781,222	\$ 1,869,704	\$ 0	\$ 5,650,926
Total liabilities	\$ 3,781,222	\$ 1,869,704	\$ 34,445,740	\$ 40,096,666
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	\$ 33,658	\$ 16,829	\$	\$ 50,487
NET POSITION				
Restricted	\$ 62,758,830	\$	\$ 1,724,689	\$ 64,483,519
Unrestricted		15,391,645	(1,916,333)	13,475,312
Total net position (deficit) (Note 2)	\$ 62,758,830	\$ 15,391,645	\$ (191,644)	\$ 77,958,831

Michigan Finance Authority

NON-MAJOR FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 2017

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority Operating Fund	Public School Academy Facilities Fund	Totals
OPERATING REVENUES				
Federal revenue:				
Loan recoveries	\$ 3,246,136	\$	\$	\$ 3,246,136
Loans repurchased and rehabilitated	12,695,394			12,695,394
Account maintenance	1,108,471			1,108,471
Interest revenue			852,129	852,129
Investment income	466,895	29,957	35,769	532,621
Fees:				
Default aversion	661,302			661,302
Authority		1,200,052		1,200,052
Miscellaneous	1,180,799		3,000	1,183,799
Total operating revenues	<u>\$ 19,358,997</u>	<u>\$ 1,230,009</u>	<u>\$ 890,898</u>	<u>\$ 21,479,904</u>
OPERATING EXPENSES				
Interest expense	\$	\$	\$ 459,736	\$ 459,736
Debt issuance costs			282,175	282,175
Other administrative expense	12,656,338	1,987,709	201	14,644,248
Total operating expenses	<u>\$ 12,656,338</u>	<u>\$ 1,987,709</u>	<u>\$ 742,112</u>	<u>\$ 15,386,159</u>
Operating income (loss)	<u>\$ 6,702,659</u>	<u>\$ (757,700)</u>	<u>\$ 148,786</u>	<u>\$ 6,093,745</u>
TRANSFERS				
Transfers from other funds	\$	\$ 22,290	\$	\$ 22,290
Total transfers	<u>\$ 0</u>	<u>\$ 22,290</u>	<u>\$ 0</u>	<u>\$ 22,290</u>
Change in net position	\$ 6,702,659	\$ (735,410)	\$ 148,786	\$ 6,116,035
Net position (deficit) - Beginning of fiscal year	56,056,171	16,127,055	(340,430)	71,842,796
Net position (deficit) - End of fiscal year	<u>\$ 62,758,830</u>	<u>\$ 15,391,645</u>	<u>\$ (191,644)</u>	<u>\$ 77,958,831</u>

Michigan Finance Authority

**NON-MAJOR FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2017**

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Bonds, notes, and loans receivable made	\$	\$	\$ (35,071,267)	\$ (35,071,267)
Principal received on bonds, notes, and loans			39,081,000	39,081,000
Interest received on bonds, notes, and loans			809,425	809,425
Cash payments to employees and suppliers for goods and services	(13,309,475)	(2,600,548)	(201)	(15,910,224)
Other operating revenues	19,302,624	1,676,030		20,978,654
Net cash provided by (used in) operating activities	\$ 5,993,149	\$ (924,518)	\$ 4,818,957	\$ 9,887,588
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds and notes, net	\$	\$	\$ 34,385,000	\$ 34,385,000
Payment of debt issuance costs			(298,050)	(298,050)
Principal paid on bonds and notes			(39,440,000)	(39,440,000)
Interest paid on bonds and notes			(452,142)	(452,142)
Other		22,290		22,290
Net cash provided by (used in) noncapital financing activities	\$ 0	\$ 22,290	\$ (5,805,192)	\$ (5,782,902)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	\$ (23,506,681)	\$ 3,991,514	\$	\$ (19,515,167)
Proceeds from sale and maturities of investments	15,800,000	(3,991,995)		11,808,005
Net (purchases of) proceeds from sale and maturity of money market funds		485,040	(12,636)	472,404
Interest and dividends on investments	1,268,762	303,651	35,769	1,608,182
Net cash provided by (used in) investing activities	\$ (6,437,919)	\$ 788,210	\$ 23,133	\$ (5,626,576)
Net Increase (decrease) in cash	\$ (444,770)	\$ (114,018)	\$ (963,102)	\$ (1,521,890)
Cash and cash equivalents - Beginning of fiscal year	9,264,380	419,158	2,687,819	12,371,357
Cash and cash equivalents - End of fiscal year	\$ 8,819,610	\$ 305,140	\$ 1,724,717	\$ 10,849,467
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ 6,702,659	\$ (757,700)	\$ 148,786	\$ 6,093,745
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(466,895)	(29,957)	(35,769)	(532,621)
Other income			(3,000)	(3,000)
Interest expense			459,736	459,736
Debt issuance cost			282,175	282,175
Pension expense	(323,978)	(131,817)		(455,795)
Changes in assets and liabilities:				
(Increase) decrease in other receivables	175,128	(18,491)	1,205	157,842
Increase (decrease) in other payables	(93,765)	13,447		(80,318)
Decrease in bonds, notes, and loans receivable			3,965,824	3,965,824
Net cash provided by (used in) operating activities	\$ 5,993,149	\$ (924,518)	\$ 4,818,957	\$ 9,887,588

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SUPPLEMENTAL FINANCIAL SCHEDULES

Michigan Finance Authority

**MUNICIPAL BOND FUND
COMBINING SUPPLEMENTAL SCHEDULE OF NET POSITION
September 30, 2017**

	Local Municipalities	State Revolving Subfund	
	Subfund	Clean Water Program	Drinking Water Program
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 14,117	\$ 4,787,859	\$ 79,289
Receivable from federal government		113,431	144,284
Interest receivable	48,916,498	3,039,977	471,892
Investments	53,217,348	844,654,959	318,532,392
Notes receivable	390,520,380		
Loans receivable, net	1,405,000	174,823,296	34,478,924
Bonds receivable	226,753,000		
Other current assets			
Total current assets	\$ 720,826,343	\$ 1,027,419,522	\$ 353,706,781
Noncurrent assets:			
Receivable from State of Michigan	\$	\$	\$
Investments		443,176,248	64,229,781
Loans receivable, net	12,731,227	1,766,567,473	353,768,144
Bonds receivable	4,183,097,135		
Total noncurrent assets	\$ 4,195,828,362	\$ 2,209,743,721	\$ 417,997,925
Total assets	\$ 4,916,654,705	\$ 3,237,163,243	\$ 771,704,706
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	\$ 1,334,845	\$ 35,241,030	\$ 1,753,647
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 17,709,673	\$ 239,694	\$ 56,681
Bonds and notes payable, net	637,913,000	124,765,000	16,770,000
Interest payable	65,462,966	25,949,154	2,690,148
Unearned revenue			12,499,682
Arbitrage payable			
Total current liabilities	\$ 721,085,639	\$ 150,953,848	\$ 32,016,511
Noncurrent liabilities:			
Bonds and notes payable, net	\$ 4,227,317,447	\$ 1,208,611,450	\$ 115,762,042
Arbitrage payable			
Total noncurrent liabilities	\$ 4,227,317,447	\$ 1,208,611,450	\$ 115,762,042
Total liabilities	\$ 4,948,403,086	\$ 1,359,565,298	\$ 147,778,553
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	\$ 1,348,251	\$ 12,922	\$
NET POSITION			
Restricted for:			
State Revolving Subfund	\$	\$ 1,912,826,053	\$ 625,679,800
Strategic Water Quality Initiatives Subfund			
School Loan Revolving Subfund			
Unrestricted	(31,761,787)		
Total net position	\$ (31,761,787)	\$ 1,912,826,053	\$ 625,679,800

Michigan Finance Authority

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$ 40,000,000	\$ 1,476,933,971	\$ 1,521,815,236
		257,715
	1,544,394	53,972,761
12,918,662	90,841,695	1,320,165,056
		390,520,380
1,330,000		212,037,220
		226,753,000
	250	250
<u>\$ 54,248,662</u>	<u>\$ 1,569,320,310</u>	<u>\$ 3,725,521,618</u>
\$	\$ 554,307,151	\$ 554,307,151
	40,931,990	548,338,019
28,760,742		2,161,827,586
		4,183,097,135
<u>\$ 28,760,742</u>	<u>\$ 595,239,141</u>	<u>\$ 7,447,569,891</u>
<u>\$ 83,009,404</u>	<u>\$ 2,164,559,451</u>	<u>\$ 11,173,091,509</u>
<u>\$ 0</u>	<u>\$ 2,534,043</u>	<u>\$ 40,863,565</u>
\$ 23,811	\$ 890,856	\$ 18,920,715
	3,000,000	782,448,000
	1,671,745	95,774,013
		12,499,682
		0
<u>\$ 23,811</u>	<u>\$ 5,562,601</u>	<u>\$ 909,642,410</u>
\$	\$ 882,000,000	\$ 6,433,690,939
		0
<u>\$ 0</u>	<u>\$ 882,000,000</u>	<u>\$ 6,433,690,939</u>
<u>\$ 23,811</u>	<u>\$ 887,562,601</u>	<u>\$ 7,343,333,349</u>
<u>\$</u>	<u>\$</u>	<u>\$ 1,361,173</u>
\$	\$	\$ 2,538,505,853
82,985,593		82,985,593
	1,279,530,893	1,279,530,893
		(31,761,787)
<u>\$ 82,985,593</u>	<u>\$ 1,279,530,893</u>	<u>\$ 3,869,260,552</u>

Michigan Finance Authority

MUNICIPAL BOND FUND

COMBINING SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Fiscal Year Ended September 30, 2017

	Local Municipalities	State Revolving Subfund	
	Subfund	Clean Water Program	Drinking Water Program
OPERATING REVENUES			
Federal revenue	\$	\$ 402,232	\$ 278,487
Interest revenue	180,293,060	45,227,227	9,474,515
Investment income	43,995	22,401,103	3,603,200
Miscellaneous	409,750	38,818	22,402
Total operating revenues	\$ 180,746,805	\$ 68,069,380	\$ 13,378,604
OPERATING EXPENSES			
Arbitrage expense	\$	\$ (2,578,135)	\$
Interest expense	175,704,258	35,427,153	3,852,556
Debt issuance costs	1,568,272	1,995,891	
Other administrative expense	417,471	939,020	317,663
Total operating expenses	\$ 177,690,001	\$ 35,783,929	\$ 4,170,219
Operating income	\$ 3,056,804	\$ 32,285,451	\$ 9,208,385
NONOPERATING REVENUES (EXPENSES)			
Operating subsidies	\$	\$ 49,402,663	\$ 30,352,688
Program principal forgiveness, net		(5,934,974)	(31,294,262)
Grant expense			
Total nonoperating revenues (expenses)	\$ 0	\$ 43,467,689	\$ (941,574)
Income (loss) before transfers	\$ 3,056,804	\$ 75,753,140	\$ 8,266,811
TRANSFERS			
Transfers to other funds	\$ (22,290)	\$	\$
Total transfers	\$ (22,290)	\$ 0	\$ 0
Change in net position	\$ 3,034,514	\$ 75,753,140	\$ 8,266,811
Net position - Beginning of fiscal year	(34,796,301)	1,837,072,913	617,412,989
Net position - End of fiscal year	\$ (31,761,787)	\$ 1,912,826,053	\$ 625,679,800

Michigan Finance Authority

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$	\$ 680,719
632,915	24,654,145	260,281,862
68,206	9,988,742	36,105,246
		470,970
<u>\$ 701,121</u>	<u>\$ 34,642,887</u>	<u>\$ 297,538,797</u>
\$	\$	\$ (2,578,135)
	18,662,426	233,646,393
		3,564,163
30,991	4,794,947	6,500,092
<u>\$ 30,991</u>	<u>\$ 23,457,373</u>	<u>\$ 241,132,513</u>
<u>\$ 670,130</u>	<u>\$ 11,185,514</u>	<u>\$ 56,406,284</u>
\$ 70,000,000	\$ 85,014,901	\$ 234,770,252
		(37,229,236)
(84,550,871)		(84,550,871)
<u>\$ (14,550,871)</u>	<u>\$ 85,014,901</u>	<u>\$ 112,990,145</u>
<u>\$ (13,880,741)</u>	<u>\$ 96,200,415</u>	<u>\$ 169,396,429</u>
<u>\$</u>	<u>\$</u>	<u>\$ (22,290)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (22,290)</u>
\$ (13,880,741)	\$ 96,200,415	\$ 169,374,139
<u>96,866,334</u>	<u>1,183,330,478</u>	<u>3,699,886,413</u>
<u>\$ 82,985,593</u>	<u>\$ 1,279,530,893</u>	<u>\$ 3,869,260,552</u>

Michigan Finance Authority

MUNICIPAL BOND FUND
COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS
 For the Fiscal Year Ended September 30, 2017

	Local Municipalities	State Revolving Subfund	
	Subfund	Clean Water Program	Drinking Water Program
CASH FLOWS FROM OPERATING ACTIVITIES			
Bonds, notes, and loans receivable made	\$ (698,403,988)	\$ (126,585,284)	\$ (31,224,862)
Principal received on bonds, notes, and loans	695,819,012	171,173,883	33,601,739
Interest received on bonds, notes, and loans	202,718,849	45,227,227	9,474,516
Cash payments to employees and suppliers for goods and services	(417,473)	(3,588,597)	(319,680)
Other operating revenues	406,500	390,283	287,750
Net cash provided by (used in) operating activities	\$ 200,122,900	\$ 86,617,512	\$ 11,819,463
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	\$ 698,205,000	\$ 62,619,020	\$
Payment of debt issuance costs	(2,487,510)	(781,282)	
Principal paid on bonds and notes	(686,569,012)	(127,870,000)	(18,805,000)
Interest paid on bonds and notes	(195,703,912)	(51,478,170)	(5,818,943)
Operating subsidies		49,402,663	42,852,370
Principal forgiveness expense		(5,934,974)	(10,523,926)
Grant expense			
Other	10,338,585		
Net cash provided by (used in) noncapital financing activities	\$ (176,216,849)	\$ (74,042,743)	\$ 7,704,501
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	\$	\$ (99,890,173)	\$
Proceeds from sale and maturities of investments		84,691,603	2,856,179
Net (purchases of) proceeds from sale and maturity of money market funds	(26,570,365)	(22,924,682)	(26,863,058)
Interest and dividends on investments	44,212	30,235,105	4,503,263
Net cash provided by (used in) investing activities	\$ (26,526,153)	\$ (7,888,147)	\$ (19,503,616)
Net Increase (decrease) in cash and cash equivalents	\$ (2,620,102)	\$ 4,686,622	\$ 20,348
Cash and cash equivalents - Beginning of fiscal year	2,634,219	101,237	58,941
Cash and cash equivalents - End of fiscal year	\$ 14,117	\$ 4,787,859	\$ 79,289
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 3,056,804	\$ 32,285,451	\$ 9,208,385
Adjustments to reconcile operating income to net cash from operating activities:			
Investment income	(43,995)	(22,401,103)	(3,603,200)
Other income	(3,250)	(38,818)	
Interest expense	175,704,258	35,427,153	3,852,556
Debt issuance cost	1,568,272	1,995,891	
Changes in assets and liabilities:			
Decrease in other receivables	20,034,677	44,576,650	2,363,740
Increase (decrease) in other payables			
Increase in bonds, notes, and loans receivable	(193,866)	(5,227,712)	(2,018)
Net cash provided by (used in) operating activities	\$ 200,122,900	\$ 86,617,512	\$ 11,819,463

Noncash capital and financing activities:

The Authority issued Local Government Revenue Bonds for exchange for State Aid Revenue Notes issued in 2016. The \$19.3 million proceeds were used for cancellation and exchange for the \$19.3 million of outstanding revenue notes principal.

The Authority issued State Revolving Fund Revenue Bonds to refund debt issued in 2009 and 2010 and to pay off the 2016A BAN. The \$293.1 million proceeds were deposited immediately into an escrow account for the defeasance of \$202.9 million of outstanding revenue bond principal. In addition, \$55.8 million was remitted to repay the outstanding principal and interest on the Series 2016A BAN.

Michigan Finance Authority

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$ (7,400,642)	\$ (236,052,519)	\$ (1,099,667,295)
1,310,000	440,207,290	1,342,111,924
632,915	78,165,982	336,219,489
(31,489)	(4,794,596)	(9,151,835)
		1,084,533
<u>\$ (5,489,216)</u>	<u>\$ 277,526,157</u>	<u>\$ 570,596,816</u>
\$	\$	\$ 760,824,020
		(3,268,792)
		(833,244,012)
	(18,244,023)	(271,245,048)
70,000,000	731,236	162,986,269
		(16,458,900)
(84,550,871)		(84,550,871)
	(250)	10,338,335
<u>\$ (14,550,871)</u>	<u>\$ (17,513,037)</u>	<u>\$ (274,618,999)</u>
\$	\$	\$ (99,890,173)
		87,547,782
59,971,881	(4,075,328)	(20,461,552)
68,206	13,234,548	48,085,334
<u>\$ 60,040,087</u>	<u>\$ 9,159,220</u>	<u>\$ 15,281,391</u>
\$ 40,000,000	\$ 269,172,340	\$ 311,259,208
	1,207,761,631	1,210,556,028
<u>\$ 40,000,000</u>	<u>\$ 1,476,933,971</u>	<u>\$ 1,521,815,236</u>
\$ 670,130	\$ 11,185,514	\$ 56,406,284
(68,206)	(9,988,742)	(36,105,246)
		(42,068)
	18,662,426	233,646,393
		3,564,163
	257,666,608	324,641,675
(498)	351	(147)
(6,090,642)		(11,514,238)
<u>\$ (5,489,216)</u>	<u>\$ 277,526,157</u>	<u>\$ 570,596,816</u>

Michigan Finance Authority

**STUDENT LOAN FUND
COMBINING SUPPLEMENTAL SCHEDULE OF NET POSITION
September 30, 2017**

	Operating Subfund	Bond/Note Subfund	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,931,609	\$ 41,227,976	\$ 44,159,585
Receivable from federal government	1,249	509,375	510,624
Interfund receivable	545,436		545,436
Interest receivable	920,280	12,142,733	13,063,013
Investments	19,997,752	35,925,880	55,923,632
Loans receivable, net	568,307	106,377,640	106,945,947
Other current assets		12,216	12,216
Total current assets	<u>\$ 24,964,633</u>	<u>\$ 196,195,820</u>	<u>\$ 221,160,453</u>
Noncurrent assets:			
Investments	\$ 118,438,640	\$ 9,040,329	\$ 127,478,969
Notes receivable	18,000,000		18,000,000
Loans receivable, net	2,698,575	505,128,682	507,827,257
Total noncurrent assets	<u>\$ 139,137,215</u>	<u>\$ 514,169,011</u>	<u>\$ 653,306,226</u>
Total assets	<u>\$ 164,101,848</u>	<u>\$ 710,364,831</u>	<u>\$ 874,466,679</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	\$	\$ 2,519,090	\$ 2,519,090
Deferred outflows related to pensions	293,550		293,550
Total deferred outflows of resources	<u>\$ 293,550</u>	<u>\$ 2,519,090</u>	<u>\$ 2,812,640</u>
LIABILITIES			
Current liabilities:			
Accounts payable and other liabilities	\$ 166,530	\$ 1,891,591	\$ 2,058,121
Bonds and notes payable, net		138,735,041	138,735,041
Interfund payable		545,436	545,436
Interest payable		3,054,229	3,054,229
Arbitrage payable		22,143,974	22,143,974
Total current liabilities	<u>\$ 166,530</u>	<u>\$ 166,370,271</u>	<u>\$ 166,536,801</u>
Noncurrent liabilities:			
Bonds and notes payable, net	\$	\$ 490,208,596	\$ 490,208,596
Compensated absences	135,983		135,983
Net pension liability	1,637,500		1,637,500
Total noncurrent liabilities	<u>\$ 1,773,483</u>	<u>\$ 490,208,596</u>	<u>\$ 491,982,079</u>
Total liabilities	<u>\$ 1,940,013</u>	<u>\$ 656,578,867</u>	<u>\$ 658,518,880</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	\$ 15,777	\$	\$ 15,777
Total deferred inflows of resources	<u>\$ 15,777</u>	<u>\$ 0</u>	<u>\$ 15,777</u>
NET POSITION			
Restricted	\$	\$ 56,305,054	\$ 56,305,054
Unrestricted	162,439,608		162,439,608
Total net position	<u>\$ 162,439,608</u>	<u>\$ 56,305,054</u>	<u>\$ 218,744,662</u>

Michigan Finance Authority

STUDENT LOAN FUND

COMBINING SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Fiscal Year Ended September 30, 2017

	Operating Subfund	Bond/Note Subfund	Totals
OPERATING REVENUES			
Federal revenue, net of special allowance	\$ (6,024)	\$ (5,361,763)	\$ (5,367,787)
Interest revenue	221,151	30,582,621	30,803,772
Provision for loan losses	(71,761)	(2,659,074)	(2,730,835)
Investment income	874,679	317,101	1,191,780
Miscellaneous	5,617,723	289,429	5,907,152
Total operating revenues	<u>\$ 6,635,768</u>	<u>\$ 23,168,314</u>	<u>\$ 29,804,082</u>
OPERATING EXPENSES			
Arbitrage expense	\$	\$ (3,912,463)	\$ (3,912,463)
Interest expense		12,979,516	12,979,516
Other administrative expense	1,048,353	6,042,114	7,090,467
Total operating expenses	<u>\$ 1,048,353</u>	<u>\$ 15,109,167</u>	<u>\$ 16,157,520</u>
Operating income	<u>\$ 5,587,415</u>	<u>\$ 8,059,147</u>	<u>\$ 13,646,562</u>
Change in net position	\$ 5,587,415	\$ 8,059,147	\$ 13,646,562
Net position - Beginning of fiscal year	<u>156,852,193</u>	<u>48,245,907</u>	<u>205,098,100</u>
Net position - End of fiscal year	<u>\$ 162,439,608</u>	<u>\$ 56,305,054</u>	<u>\$ 218,744,662</u>

Michigan Finance Authority

STUDENT LOAN FUND
COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS
 For the Fiscal Year Ended September 30, 2017

	Operating Subfund	Bond/Note Subfund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Principal received on bonds, notes, and loans	\$ 387,556	\$ 137,163,558	\$ 137,551,114
Interest received on bonds, notes, and loans	176,339	24,809,477	24,985,816
Cash payments to employees and suppliers for goods and services	(1,216,416)	(8,093,559)	(9,309,975)
Net special allowance payment to federal government	(8,324)	(8,432,917)	(8,441,241)
Other operating revenues	5,676,956	293,025	5,969,981
	<u>5,676,956</u>	<u>293,025</u>	<u>5,969,981</u>
Net cash provided by operating activities	\$ 5,016,111	\$ 145,739,584	\$ 150,755,695
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from sale of bonds and notes, net	\$	\$	\$
Principal paid on bonds and notes		(125,048,000)	(125,048,000)
Interest paid on bonds and notes		(14,519,843)	(14,519,843)
		<u>(14,519,843)</u>	<u>(14,519,843)</u>
Net cash used in noncapital financing activities	\$ 0	\$ (139,567,843)	\$ (139,567,843)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	\$ (91,668,341)	\$ (59,934,491)	\$ (151,602,832)
Proceeds from sale and maturities of investments	55,366,839	14,950,757	70,317,596
Interest and dividends on investments	2,091,678	150,857	2,242,535
	<u>2,091,678</u>	<u>150,857</u>	<u>2,242,535</u>
Net cash used in investing activities	\$ (34,209,824)	\$ (44,832,877)	\$ (79,042,701)
Net decrease in cash and cash equivalents	\$ (29,193,713)	\$ (38,661,136)	\$ (67,854,849)
Cash and cash equivalents - Beginning of fiscal year	32,125,322	79,889,112	112,014,434
	<u>32,125,322</u>	<u>79,889,112</u>	<u>112,014,434</u>
Cash and cash equivalents - End of fiscal year	\$ 2,931,609	\$ 41,227,976	\$ 44,159,585
	<u>2,931,609</u>	<u>41,227,976</u>	<u>44,159,585</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 5,587,415	\$ 8,059,147	\$ 13,646,562
Adjustments to reconcile operating income to net cash from operating activities:			
Investment income	(876,214)	(317,101)	(1,193,315)
Interest expense		12,979,516	12,979,516
Pension expense	(120,079)		(120,079)
Changes in assets and liabilities:			
Decrease in other receivables	152,206	859,228	1,011,434
Decrease in other payables	(110,686)	(4,927,949)	(5,038,635)
Decrease in bonds, notes, and loans receivable	383,469	129,086,743	129,470,212
	<u>383,469</u>	<u>129,086,743</u>	<u>129,470,212</u>
Net cash provided by operating activities	\$ 5,016,111	\$ 145,739,584	\$ 150,755,695
	<u>5,016,111</u>	<u>145,739,584</u>	<u>150,755,695</u>



STATISTICAL SECTION

INDEX TO STATISTICAL SECTION

This part of the Michigan Finance Authority’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority’s overall financial health.

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These schedules contain trend information to help the reader understand how the Michigan Finance Authority’s financial performance and well-being have changed over time.

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Debt Capacity

These schedules present information to help the reader assess the affordability of the Michigan Finance Authority’s current levels of outstanding debt and the Authority’s ability to issue additional debt in the future. The Authority has no statutory limit on the amount of debt that may be authorized.

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Demographic and Economic Information

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Operating Information

These schedules contain information about the Authority’s operations and resources to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs.

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SOURCES

Unless otherwise noted, the information in these schedules is derived from the financial statements presented in the annual financial reports or from the Authority's internal records for the relevant years.

NOTES

Legislative action created the Michigan Financial Authority in 2010. Statistical reports begin with fiscal year 2010.

The Michigan Finance Authority was created in 2010; therefore, that is the earliest year presented in the accompanying statistical tables.

Michigan Finance Authority

NET POSITION BY COMPONENT – LAST EIGHT FISCAL YEARS

(Accrual Basis of Accounting)

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities			
Net investment in capital assets	\$	\$	\$
Restricted			
Unrestricted	<u>(934,587,165)</u>	<u>(946,780,387)</u>	<u>(4,037,636,777)</u>
Total governmental activities	<u>\$ (934,587,165)</u>	<u>\$ (946,780,387)</u>	<u>\$ (4,037,636,777)</u>
Business-type activities			
Net investment in capital assets	\$	\$	\$
Restricted	2,278,901,688	2,559,653,575	2,889,999,000
Unrestricted	<u>100,527,493</u>	<u>129,518,375</u>	<u>155,074,009</u>
Total business-type activities	<u>\$ 2,379,429,181</u>	<u>\$ 2,689,171,950</u>	<u>\$ 3,045,073,009</u>
Primary government			
Net investment in capital assets	\$	\$	\$
Restricted	2,278,901,688	2,559,653,575	2,889,999,000
Unrestricted	<u>(834,059,672)</u>	<u>(817,262,012)</u>	<u>(3,882,562,767)</u>
Total primary government activities	<u>\$ 1,444,842,016</u>	<u>\$ 1,742,391,563</u>	<u>\$ (992,563,767)</u>
Reconciliation of net position			
Beginning net position	\$ 1,312,978,007	\$ 1,444,842,017	\$ 1,742,391,563
Restatement of beginning net position			
Beginning net position – restated	1,312,978,007	1,444,842,017	1,742,391,563
Statement of Activities – changes in net position	<u>131,864,008</u>	<u>297,549,548</u>	<u>(2,734,955,327)</u>
Ending net position	<u>\$ 1,444,842,016</u>	<u>\$ 1,742,391,563</u>	<u>\$ (992,563,767)</u>

Michigan Finance Authority

2013	2014	2015	2016	2017
\$	\$	\$	\$	\$
(3,629,864,549)	(3,251,841,276)	(2,837,502,355)	(1,104,934,469)	(1,069,944,526)
<u>\$ (3,629,864,549)</u>	<u>\$ (3,251,841,276)</u>	<u>\$ (2,837,502,355)</u>	<u>\$ (1,104,934,469)</u>	<u>\$ (1,069,944,526)</u>
\$	\$	\$	\$	\$
3,243,460,437	3,532,780,377	3,889,861,924	3,843,435,715	4,021,810,912
194,165,721	140,058,333	351,221	133,391,594	144,153,133
<u>\$ 3,437,626,158</u>	<u>\$ 3,672,838,710</u>	<u>\$ 3,890,213,145</u>	<u>\$ 3,976,827,309</u>	<u>\$ 4,165,964,045</u>
\$	\$	\$	\$	\$
3,243,460,437	3,532,780,377	3,889,861,924	3,843,435,715	4,021,810,912
(3,435,698,828)	(3,111,782,943)	(2,837,151,134)	(971,542,875)	(925,791,393)
<u>\$ (192,238,391)</u>	<u>\$ 420,997,434</u>	<u>\$ 1,052,710,790</u>	<u>\$ 2,871,892,840</u>	<u>\$ 3,096,019,519</u>
\$ (992,563,767)	\$ (192,238,391)	\$ 420,997,434	\$ 1,052,710,790	\$ 2,871,892,840
	(44,536,182)	(6,474,045)	1,687,475,852	
(992,563,767)	(236,774,573)	414,523,389	2,740,186,642	2,871,892,840
800,325,376	657,772,008	638,187,401	131,706,198	224,126,679
<u>\$ (192,238,391)</u>	<u>\$ 420,997,435</u>	<u>\$ 1,052,710,790</u>	<u>\$ 2,871,892,840</u>	<u>\$ 3,096,019,519</u>

Michigan Finance Authority

CHANGES IN NET POSITION – LAST EIGHT FISCAL YEARS

(Accrual Basis of Accounting)

	2010	2011	2012
Expenses			
Governmental Activities:			
Tobacco Settlement	\$ 74,601,941	\$ 75,326,475	\$ 76,117,002
Unemployment Obligation			3,342,293,493
Total Governmental Activities	<u>\$ 74,601,941</u>	<u>\$ 75,326,475</u>	<u>\$ 3,418,410,495</u>
Business-Type Activities:			
Municipal Bond Fund	\$ 371,377,998	\$ 232,512,497	\$ 205,622,188
Student Loan Fund	46,082,852	29,760,349	29,775,260
Non-Major Funds	22,408,595	20,949,314	20,240,504
Total Business-Type Activities	<u>\$ 439,869,445</u>	<u>\$ 283,222,160</u>	<u>\$ 255,637,953</u>
Total primary governmental expenses	<u><u>\$ 514,471,386</u></u>	<u><u>\$ 358,548,635</u></u>	<u><u>\$ 3,674,048,448</u></u>
Program Revenues			
Governmental Activities:			
Charges for Services:			
Tobacco Settlement	\$ 66,808,438	\$ 60,627,688	\$ 62,345,793
Unemployment Obligation			260,695,144
Operating Grants and Contributions		2,505,565	3,513,169
Total governmental activities program revenues	<u>\$ 66,808,438</u>	<u>\$ 63,133,253</u>	<u>\$ 326,554,106</u>
Business-Type Activities:			
Charges for Services:			
Municipal Bond Fund	\$ 176,958,700	\$ 172,141,320	\$ 164,066,340
Student Loan Fund	51,098,084	56,975,160	52,846,772
Non-Major Funds	23,540,158	25,246,681	25,840,665
Operating Grants and Contributions	324,401,599	338,601,770	368,785,238
Total business-type activities program revenues	<u>\$ 575,998,541</u>	<u>\$ 592,964,931</u>	<u>\$ 611,539,015</u>
Total primary government program revenues	<u><u>\$ 642,806,979</u></u>	<u><u>\$ 656,098,184</u></u>	<u><u>\$ 938,093,121</u></u>
Net (Expenses)/Revenues			
Governmental activities	\$ (7,793,503)	\$ (12,193,222)	\$ (3,091,856,389)
Business-type activities	136,129,096	309,742,771	355,901,062
Total primary government net (expenses)/revenue	<u><u>\$ 128,335,593</u></u>	<u><u>\$ 297,549,549</u></u>	<u><u>\$ (2,735,955,327)</u></u>
General Revenues and Other Changes in Net Position			
Governmental activities:			
Interest and investment earnings	\$ 3,138,281	\$	\$
Payments from State of Michigan			1,000,000
Total governmental activities	<u>\$ 3,138,281</u>	<u>\$ 0</u>	<u>\$ 1,000,000</u>
Business-type activities:			
Interest and investment earnings	\$ 390,136	\$	\$
Transfers			
Total business-type activities	<u>390,136</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total primary government	<u><u>\$ 3,528,417</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,000,000</u></u>
Changes in Net Position			
Governmental activities	\$ (4,655,222)	\$ (12,193,222)	\$ (3,090,856,389)
Business-type activities	136,519,231	309,742,771	355,901,062
Total primary government net (expenses)/revenue	<u><u>\$ 131,864,009</u></u>	<u><u>\$ 297,549,549</u></u>	<u><u>\$ (2,734,955,327)</u></u>

Michigan Finance Authority

2013	2014	2015	2016	2017
\$ 76,464,845	\$ 76,433,036	\$ 77,582,442	\$ 78,767,930	\$ 80,107,968
61,578,812	53,770,005	34,323,310	27,498,154	23,618,041
<u>\$ 138,143,658</u>	<u>\$ 130,203,042</u>	<u>\$ 111,905,752</u>	<u>\$ 106,266,084</u>	<u>\$ 103,726,009</u>
\$ 175,214,865	\$ 194,744,405	\$ 304,789,190	\$ 401,315,785	\$ 362,912,620
12,634,982	31,437,830	23,144,961	22,501,976	16,157,520
18,925,622	17,414,169	16,072,815	16,888,493	15,386,159
<u>\$ 206,775,470</u>	<u>\$ 243,596,404</u>	<u>\$ 344,006,966</u>	<u>\$ 440,706,254</u>	<u>\$ 394,456,299</u>
<u>\$ 344,919,128</u>	<u>\$ 373,799,446</u>	<u>\$ 455,912,718</u>	<u>\$ 546,972,338</u>	<u>\$ 498,182,308</u>
\$ 85,176,464	\$ 60,901,967	\$ 61,722,514	\$ 59,876,880	\$ 67,616,195
457,682,213	459,076,098	461,541,373	87,296,044	67,927,559
3,057,208	3,355,458	2,980,786	4,185,194	3,172,198
<u>\$ 545,915,885</u>	<u>\$ 523,333,523</u>	<u>\$ 526,244,673</u>	<u>\$ 151,358,118</u>	<u>\$ 138,715,952</u>
\$ 160,677,065	\$ 175,603,147	\$ 279,473,753	\$ 273,188,262	\$ 260,752,832
50,316,931	39,652,428	30,530,557	26,475,278	28,612,302
25,846,255	25,338,740	22,666,073	22,917,614	20,947,283
362,488,368	267,643,615	235,185,063	204,739,264	273,280,618
<u>\$ 599,328,619</u>	<u>\$ 508,237,930</u>	<u>\$ 567,855,446</u>	<u>\$ 527,320,418</u>	<u>\$ 583,593,035</u>
<u>\$ 1,145,244,504</u>	<u>\$ 1,031,571,453</u>	<u>\$ 1,094,100,119</u>	<u>\$ 678,678,536</u>	<u>\$ 722,308,987</u>
\$ 407,772,227	\$ 393,130,482	\$ 414,338,921	\$ 45,092,034	\$ 34,989,943
392,553,149	264,641,526	223,848,480	86,614,164	189,136,736
<u>\$ 800,325,376</u>	<u>\$ 657,772,008</u>	<u>\$ 638,187,401</u>	<u>\$ 131,706,198</u>	<u>\$ 224,126,679</u>
\$	\$	\$	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 407,772,227	\$ 393,130,482	\$ 414,338,921	\$ 45,092,034	\$ 34,989,943
392,553,148	264,641,526	223,848,480	86,614,164	189,136,736
<u>\$ 800,325,376</u>	<u>\$ 657,772,008</u>	<u>\$ 638,187,401</u>	<u>\$ 131,706,198</u>	<u>\$ 224,126,679</u>

Michigan Finance Authority

FUND BALANCE, GOVERNMENTAL FUNDS – LAST EIGHT FISCAL YEARS

(Modified Accrual Basis of Accounting)

	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Fund			
Restricted for administrative expenditures	\$	\$ 361,592	\$ 1,417,351
Total general fund	<u>\$ 0</u>	<u>\$ 361,592</u>	<u>\$ 1,417,351</u>
All Other Governmental Funds			
Restricted for debt service	\$	\$ 103,386,822	\$ 334,858,059
Total All Other Governmental Funds	<u>\$ 0</u>	<u>\$ 103,386,822</u>	<u>\$ 334,858,059</u>
General Fund			
Reserved	\$	\$	\$
Unreserved			
Total general fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
All Other Governmental Funds			
Unreserved, reported in:			
Special revenue funds	\$ 103,998,391	\$	\$
Debt service funds			
Total All Other Governmental Funds	<u>\$ 103,998,391</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reconciliation of governmental fund balances			
Beginning fund balances	\$ 103,351,697	\$ 103,998,391	\$ 103,748,413
Restatement of beginning fund balances			
Beginning fund balances - restated	103,351,697	103,998,391	103,748,413
Excess of revenues and other sources over (under) expenditures and other uses	646,694	(249,977)	232,526,997
Change in accounting entity			
Ending fund balances	<u>\$ 103,998,391</u>	<u>\$ 103,748,414</u>	<u>\$ 336,275,410</u>

NOTES: Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing Governmental Accounting Standards Board Statement No. 54. Fund balance has not been restated for prior years.

Michigan Finance Authority

2013	2014	2015	2016	2017
\$ 1,570,740	\$ 1,529,391	\$ 1,488,737	\$ 1,547,571	\$ 1,604,306
<u>\$ 1,570,740</u>	<u>\$ 1,529,391</u>	<u>\$ 1,488,737</u>	<u>\$ 1,547,571</u>	<u>\$ 1,604,306</u>
\$ 369,001,232	\$ 360,013,265	\$ 370,019,113	\$ 1,647,976,383	\$ 1,288,818,956
<u>\$ 369,001,232</u>	<u>\$ 360,013,265</u>	<u>\$ 370,019,113</u>	<u>\$ 1,647,976,383</u>	<u>\$ 1,288,818,956</u>
\$	\$	\$	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 336,275,410	\$ 370,571,972	\$ 361,542,656	\$ 371,507,850	\$ 1,649,523,954
336,275,410	370,571,972	361,542,656	1,667,089,329	1,649,523,954
34,296,562	(9,029,316)	9,965,195	(389,073,225)	(359,100,692)
<u>\$ 370,571,972</u>	<u>\$ 361,542,656</u>	<u>\$ 371,507,850</u>	<u>\$ 1,649,523,954</u>	<u>\$ 1,290,423,262</u>

Michigan Finance Authority

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS – LAST EIGHT FISCAL YEARS

(Modified Accrual Basis of Accounting)

	2010	2011	2012	2013
Revenues				
Payments from the State of Michigan	\$	\$	\$ 1,000,000	\$
Tobacco settlement revenue	64,062,071	63,545,540	61,769,917	83,738,973
Unemployment obligation assessment revenue			255,540,566	453,696,842
Investment income	3,138,281	2,963,042	4,318,454	3,042,586
Other income				37,000
Total revenues	<u>\$ 67,200,352</u>	<u>\$ 66,508,582</u>	<u>\$ 322,628,937</u>	<u>\$ 540,515,401</u>
Expenditures				
Payments to Department of Licensing and Regulatory Affairs	\$	\$	\$ 3,320,913,984	\$
Debt service:				
Interest on bonds and notes	61,496,020	61,158,398	63,947,308	188,838,340
Principal on bonds and notes	4,865,000	5,410,000	3,327,560,000	316,815,000
Other administrative expenditures	192,638	190,161	12,808,950	565,498
Total expenditures	<u>\$ 66,553,658</u>	<u>\$ 66,758,559</u>	<u>\$ 6,725,230,242</u>	<u>\$ 506,218,838</u>
Excess of revenues over (under) expenditures	\$ 646,694	\$ (249,977)	\$ (6,402,601,305)	\$ 34,296,562
Other Financing Sources (Uses)				
Bonds and notes issued	\$	\$	\$ 3,323,000,000	\$
Refunding bond issues			2,917,135,000	
Premium on bond issuance			394,993,301	
Transfers from other funds	66,361,020			
Transfers to other funds	(66,361,020)			
Total other financing sources (uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,635,128,301</u>	<u>\$ 0</u>
Net change in fund balances	<u>\$ 646,694</u>	<u>\$ (249,977)</u>	<u>\$ 232,526,997</u>	<u>\$ 34,296,562</u>
Debt Service as a percentage of noncapital expenditures	99.71%	99.72%	50.43%	99.89%

Michigan Finance Authority

2014	2015	2016	2017
\$ 61,251,890	\$ 62,047,158	\$ 60,190,534	\$ 61,747,402
455,734,806	470,358,318	92,152,544	72,352,384
3,414,231	2,972,054	4,185,194	3,172,198
			68,126
<u>\$ 520,400,927</u>	<u>\$ 535,377,530</u>	<u>\$ 156,528,272</u>	<u>\$ 137,340,110</u>
\$ 181,516,062	\$ 168,604,369	\$ 150,558,270	\$ 130,517,069
347,500,000	356,375,000	394,705,000	365,565,000
414,181	432,966	338,227	358,733
<u>\$ 529,430,243</u>	<u>\$ 525,412,335</u>	<u>\$ 545,601,497</u>	<u>\$ 496,440,802</u>
\$ (9,029,316)	\$ 9,965,195	\$ (389,073,225)	\$ (359,100,692)
\$ 0	\$ 0	\$ 0	\$ 0
<u>\$ (9,029,316)</u>	<u>\$ 9,965,195</u>	<u>\$ (389,073,225)</u>	<u>\$ (359,100,692)</u>
99.92%	99.92%	99.94%	99.93%

Michigan Finance Authority

REVENUE GENERATING ASSETS – LAST EIGHT FISCAL YEARS

	2010	2011	2012	2013
Interest bearing notes, loans, and bonds				
Notes Receivable	\$ 1,215,319,712	\$ 981,606,210	\$ 700,614,691	\$ 694,708,027
Loans Receivable	4,350,826,462	4,177,428,407	4,099,707,272	3,892,346,982
Bonds Receivable	693,146,562	789,220,626	837,706,945	754,073,600
Total notes, loans, and bonds receivable	<u>\$ 6,259,292,736</u>	<u>\$ 5,948,255,243</u>	<u>\$ 5,638,028,908</u>	<u>\$ 5,341,128,609</u>
Average rate of return (%)	4.13%	3.95%	3.90%	3.91%
Investments				
Government money market funds	\$ 999,028,505	\$ 1,232,117,816	\$ 1,750,470,369	\$ 1,731,654,187
Repurchase agreements	1,162,836,903	855,309,422	643,578,360	600,360,391
State and municipal general obligation bonds	88,020,000	100,386,577	104,500,357	99,101,561
Commercial paper	178,853,936	318,573,594	18,966,642	10,570,000
U.S. Treasury obligations	267,782,777	61,019,651	60,709,664	115,422,782
U.S. government agency securities			169,254,528	151,108,529
Certificates of Deposit				
Total Investments	<u>\$ 2,696,522,121</u>	<u>\$ 2,567,407,060</u>	<u>\$ 2,747,479,920</u>	<u>\$ 2,708,217,450</u>
Average rate of return (%)	2.01%	2.42%	2.57%	1.04%

NOTES: Average rate of return for interest revenue is calculated as total fiscal year interest revenue divided by fiscal-year average interest bearing notes, loans, and bonds receivable for fiscal years beginning with 2011. Fiscal year 2010 uses year-end balance of interest bearing notes, loans, and bonds receivable.

Average rate of return for investment revenue is calculated as total fiscal year investment revenue divided by fiscal-year average investments for fiscal years beginning with 2011. Fiscal year 2010 uses year-end balance of investments.

Michigan Finance Authority

2014	2015	2016	2017
\$ 713,393,485	\$ 734,979,831	\$ 508,078,921	\$ 440,929,380
3,674,415,895	3,566,108,490	3,181,131,858	2,988,638,010
2,778,216,810	3,663,371,762	4,366,119,285	4,409,850,135
<u>\$ 7,166,026,190</u>	<u>\$ 7,964,460,083</u>	<u>\$ 8,055,330,064</u>	<u>\$ 7,839,417,525</u>
3.57%	4.23%	3.87%	3.67%
\$ 1,466,314,120	\$ 1,587,879,583	\$ 1,427,183,155	\$ 1,296,562,463
547,134,875	502,590,872	481,067,669	437,272,505
98,202,224	120,027,408	190,775,695	193,910,681
4,145,000	4,651,991	10,096,103	26,574,222
111,191,625	107,570,359	27,013,940	97,232,554
140,883,355	132,547,543	296,533,442	471,575,470
		8,153,450	16,348,449
<u>\$ 2,367,871,199</u>	<u>\$ 2,455,267,756</u>	<u>\$ 2,440,823,454</u>	<u>\$ 2,539,476,344</u>
1.51%	1.53%	1.58%	1.65%

Michigan Finance Authority

INTEREST REVENUE BY TYPE OF BORROWER – 2010 AND 2017

Type of Borrower	2010				2017			
	Number of Borrowers	Percentage of Total	Interest Revenue	Percentage of Total	Number of Borrowers	Percentage of Total	Interest Revenue	Percentage of Total
Local Governments	1,225	0.26%	\$177,703,932	68.66%	1,351	0.88%	\$261,133,991	89.45%
Student Loans	470,653	99.74%	81,097,787	31.34%	152,913	99.12%	30,803,772	10.55%
Total	471,878	100.00%	\$258,801,719	100.00%	154,264	100.00%	\$291,937,763	100.00%

NOTES: Due to confidentiality issues, the names of the ten largest revenue payers are not available. These categories are intended to provide alternative information regarding the sources of the Authority's interest revenue.

Local Governments includes cities, townships, counties, public school districts, public school academies, and local government utility authorities.

No table is presented for investment income by type of investment because the Authority is not able to obtain that information for fiscal year 2010.

Michigan Finance Authority

RATIOS OF OUTSTANDING DEBT BY TYPE – LAST EIGHT FISCAL YEARS

	Governmental-Type Debt		Business-Type Debt		Primary Government Total Outstanding Debt	Percentage of Personal Income	Debt Per Capita
	Asset-Backed Bonds	Revenue Bonds	Notes	Revenue Bonds			
2010	\$ 1,079,070,007	\$	\$ 2,212,105,837	\$ 5,150,526,683	\$ 8,441,702,527	2.43%	\$ 854
2011	1,087,530,995		1,833,951,978	4,918,948,706	7,840,431,679	2.12%	794
2012	1,097,984,776	3,294,460,454	1,382,110,370	4,929,219,010	10,703,774,610	2.80%	1,083
2013	1,086,929,451	2,938,323,629	1,284,340,134	4,539,391,818	9,848,985,032	2.54%	995
2014	1,100,657,133	2,529,216,145	1,053,636,185	6,289,327,980	10,972,837,443	2.71%	1,107
2015	1,113,951,069	2,106,839,790	1,142,655,000	7,007,675,707	11,371,121,566	2.66%	1,147
2016	1,129,016,028	1,657,417,008	987,096,000	7,124,758,785	10,898,287,821	2.48%	1,098
2017	1,145,119,905	1,253,161,238	827,763,000	7,051,704,576	10,277,748,719	Unavailable	Unavailable

SOURCES: U.S. Census Bureau, Population Division. U.S. Department of Commerce, Bureau of Economic Analysis.
Michigan Department of Treasury.

Personal Income and Population data are not available for the current fiscal year.

Michigan Finance Authority

PLEGGED REVENUE DEBT SERVICE COVERAGE – LAST EIGHT FISCAL YEARS

Fiscal Year	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service		Coverage
				Principal	Interest	
Tobacco Settlement Asset-Backed Bonds						
2010	\$ 67,244,495	\$ 331,192	\$ 66,913,303	\$ 4,475,000	\$ 61,496,020	1.01
2011	66,721,943	341,128	66,380,815	4,230,000	60,960,690	1.02
2012	65,523,253	351,361	65,171,892	4,560,000	60,608,761	1.00
2013	87,325,579	361,902	86,963,677	9,840,000	59,574,215	1.25
2014	63,955,969	372,759	63,583,210	5,060,000	58,514,030	1.05
2015	64,308,108	383,942	63,924,166	5,785,000	58,135,557	1.00
2016	63,803,150	395,460	63,407,690	5,665,000	57,741,482	1.00
2017	Unavailable	Unavailable	Unavailable	Unavailable	Unavailable	Unavailable

NOTES: Debt service coverage information for the Tobacco Settlement Asset Backed Bonds are presented on a calendar year basis to maintain comparability with the required annual disclosures for these bonds that are publicly available to investors. The calendar year prior to the current fiscal year is the most recent available.

Fiscal Years 2011 through 2015 Gross Revenues have been restated due to timing of receipts and their availability to pay debt service.

SOURCE: Michigan Department of Treasury

Michigan Finance Authority

DEMOGRAPHIC AND ECONOMIC INDICATORS – LAST SEVEN CALENDAR YEARS

	2010	2011	2012	2013	2014	2015	2016
Population ¹ (<i>in thousands</i>)	9,884	9,876	9,887	9,899	9,916	9,918	9,928
Total Personal Income ² (<i>in billions</i>)	\$347.7	\$369.4	\$382.6	\$388.2	\$404.9	\$427.2	\$439.4
Per Capita Income ²	\$35,204	\$37,400	\$38,699	\$39,214	\$40,830	\$43,074	\$44,253
Unemployment Rate ³	12.6%	10.4%	9.1%	8.8%	7.3%	5.4%	4.9%

NOTE: Most recent calendar year for which data is available: 2016.

SOURCE: ¹ U.S. Census Bureau, Population Division. 2010 figures are from the 2010 Census. 2011-2016 figures are December 2016 estimates.

²U.S. Department of Commerce, Bureau of Economic Analysis.

³ Michigan Department of Labor & Economic Growth and U.S. Department of Labor, Bureau of Labor Statistics.

Michigan Finance Authority

CLASSIFIED EMPLOYEES BY FUNCTION – LAST EIGHT FISCAL YEARS

	2010	2011	2012	2013	2014	2015	2016	2017
Classified Employees by Function								
Governmental Activities:								
Tobacco Settlement	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Obligation	0.0	0.0	1.0	0.5	0.5	0.5	0.5	0.5
Total Governmental Activity Employees	0.5	0.5	1.5	1.0	1.0	1.0	1.0	1.0
Business-Type Activities:								
Municipal Bond Fund	11.5	11.0	10.5	12.5	11.5	11.5	10.5	9.0
Student Loan Fund	29.5	16.0	14.0	13.5	11.5	12.0	13.5	8.0
Non-Major Funds:								
Michigan Guaranty Agency	51.5	35.0	34.0	31.5	32.0	32.0	32.0	36.0
Michigan Finance Authority	2.0	2.0	2.5	3.0	2.0	2.5	2.0	2.0
Public School Academy Facilities Fund	1.0	1.0	0.5	1.0	1.0	1.0	1.0	1.0
Total Business-Type Activity Employees	95.5	65.0	61.5	61.5	58.0	59.0	59.0	56.0
Total Full-Time Equivalent Employees	96.0	65.5	63.0	62.5	59.0	60.0	60.0	57.0

NOTES: This report reflects average employee counts of individuals who are full-time in primary positions, except student assistants.

This schedule includes average employee counts. Employees who job share are divided in quarters or half. For this reason, totals may not equal the sum of the employee counts per function.

SOURCE: Michigan Department of Treasury

Michigan Finance Authority

OPERATING INDICATORS BY FUNCTION – LAST EIGHT FISCAL YEARS

	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities:								
Tobacco Settlement								
Bonds Issued								
Unemployment Obligation								
Bonds Issued			4					
Business-Type Activities:								
Municipal Bond Fund								
Bonds Issued	6	13	12	5	10	12	16	6
Notes Issued	9	7	7	6	9	12	9	6
Student Loan Fund								
Bonds Issued				1	1	1		
Notes Issued					1	1	3	
Non-Major Funds								
Michigan Guaranty Agency								
Administrative Wage Garnishment Transactions	72,919	100,629	103,754	104,224	105,929	108,374	106,945	98,052
Rehabilitated Student Loan Transactions	207	4,354	4,301	4,051	3,933	4,190	3,807	3,371
Michigan Finance Authority								
Bonds Issued	21	25	17	10	9	16	10	11
Public School Academy Facilities Fund								
Notes Issued	5	4	4	3	2	2	3	3

NOTES: Governmental funds issue bonds less frequently than business-type funds. Recurring activities for Governmental Funds include maintenance and tracking activities for past issuances; such as making timely debt service payments, accounting and financial reporting, and required periodic continuing disclosures for bond holders.

The Michigan Finance Authority line item includes the activities of the Healthcare Finance Fund, the Higher Education Facilities Fund, and the Michigan Strategic Fund.

To ensure consistency with information presented in the financial statements, Public School Academy Facilities Fund bond issuances have been included in the Michigan Finance Authority line above.

The Michigan Guaranty Agency transactions are shown at the borrower level.

SOURCE: Michigan Department of Treasury

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OTHER INFORMATION

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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 Auditor's Report

To Management, the Board of Directors, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Finance Authority

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, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority (the "Authority"), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Michigan Finance Authority's basic financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Michigan Finance 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 opinion 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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.

To Management, the Board of Directors, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Finance Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Finance 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Morse, PLLC

December 13, 2017

GLOSSARY OF ABBREVIATIONS AND TERMS

Authority—Michigan Finance Authority.

Consolidation Loans—Loans made to borrowers consolidating certain student loans.

Deficiency in Internal Control Over Financial Reporting—The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

FFEL Program—Federal Family Education Loan Program.

Financial Audit—An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Fitch Ratings (Fitch)—A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt investments.

GASB 48—GASB Statement No. 48. *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*

GASB 65—GASB Statement No. 65. *Items Previously Reported as Assets and Liabilities.*

Generally Accepted Accounting Principles (GAAP)—A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."

Governmental Accounting Standards Board (GASB)—An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.

In-Relation-To Opinion—An opinion expressed by the auditor on supplementary information based on auditing procedures applied in the audit of the basic financial statements and certain additional procedures and considering materiality of the basic financial statements taken as a whole.

Internal Control—A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

LIBOR—London Interbank Offered Rate.

Major Fund—A significant governmental or enterprise fund, based on specific size criteria. A government's main operating fund (the general fund or its equivalent) is always considered a major fund. Government officials may also designate other governmental and enterprise funds as major funds when deemed important to financial statement users (for example, because of public interest or consistency).

Material Misstatement—A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.

Material Weakness in Internal Control Over Financial Reporting—A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.

MGA—Michigan Guaranty Agency.

MI-LOAN—Michigan Alternative Student Loan.

Modified Opinion—A qualified opinion, an adverse opinion, or a disclaimer of opinion.

Moody's Investors Service, Inc. (Moody's)—A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.

MSA—Master Settlement Agreement.

MSERS—Michigan State Employees' Retirement System.

PLUS Loans—Loans made to parents of dependent undergraduates.

Significant Deficiency in Internal Control Over Financial Reporting—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.

Stafford Loans—Educational loans made under the FFEL Program to students.

Standard & Poor's (S&P)—A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.

TED—Department of Talent and Economic Development.

TSR—Tobacco settlement revenue.

Unmodified Opinion—The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

USDOE—U.S. Department of Education.

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