

23 FINANCIAL AUDIT REPORT

of the **MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION**



FISCAL YEAR ENDING
SEPTEMBER 30, 2023

(A discretely presented component unit of the State of Michigan)

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INDEPENDENT AUDITOR'S REPORT



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Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

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

Quentin L. Messer, Jr., Chief Executive Officer
and
Awenate Cobbina, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of the Michigan Economic Development Corporation (MEDC), a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise MEDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of MEDC as of September 30, 2023 and the respective changes in its financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MEDC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

As discussed in Note 2 to the financial statements, MEDC:

- Decreased beginning net position by \$29.6 million to account for a prior period error for the recognition of revenue and a receivable for certain tribal gaming revenues not received as of September 30.
- Adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the fiscal year ended September 30, 2023.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.



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Quentin L. Messer, Jr., Chief Executive Officer
Avenate Cobbina, Executive Committee Chair
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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MEDC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MEDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MEDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and the required supplementary information in accordance with auditing standards generally accepted in the United States of America,



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which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report dated February 13, 2024 on our consideration of MEDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of MEDC's 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 MEDC's internal control over financial reporting and compliance.

Doug Ringler
Auditor General
February 13, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Economic Development Corporation's (MEDC's) management has prepared this discussion and analysis of the financial performance of MEDC for the period October 1, 2022 through September 30, 2023. MEDC is a public body corporate and a discretely presented component unit of the financial reporting entity of the State of Michigan. MEDC's management is responsible for the basic financial statements and this discussion.

Using the Financial Report

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

The reporting requirements of GASB require a statement of net position; a statement of revenues, expenses, and changes in net position, a statement of cash flows, a statement of fiduciary net position, and a statement of changes in fiduciary net position. This financial report includes the independent auditor's report, management's discussion and analysis, the basic financial statements, and notes to the financial statements. Amounts reported in the financial statements include both the MEDC corporate funds as well as the State funds made available to MEDC.

The financial statements are interrelated and represent the financial status of MEDC. The statement of net position presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the end of the fiscal year. The statement of revenues, expenses, and changes in fund net position presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash in-flows and out-flows summarized by operating, capital and related financing, and investing activities. The statement of fiduciary net position reports the assets and liabilities of the 401(a) and 457 plans and the net position that is held on behalf of participants as of the end of the fiscal year. The statement of changes in fiduciary net position reports the additions and deductions to the plan that occurred during the fiscal year.

Analysis of Financial Activities

The assets and deferred outflows of MEDC exceeded its liabilities and deferred inflows by \$1.1 billion at September 30, 2023 and by \$244.7 million at September 30, 2022. As of September 30, 2023, \$968.1 million of this amount was in equity in common cash of the State of Michigan.

Condensed Financial Information
From the Statement of Net Position
As of September 30

	<u>2023</u>	<u>2022</u>
Current assets	<u>\$1,050,048,898</u>	<u>\$ 230,394,216</u>
Noncurrent assets		
Economic Development Equity Programs (net)	\$ 5,152,020	\$ 5,152,020
Investments	67,841,584	59,697,760
Capital assets (net)	<u>6,361,276</u>	<u>4,326,220</u>
Total noncurrent assets	<u>\$ 79,354,879</u>	<u>\$ 69,176,000</u>
Total assets	<u>\$1,129,403,778</u>	<u>\$ 299,570,216</u>
Deferred outflows of resources	<u>\$ 7,833,970</u>	<u>\$ 7,702,758</u>
Total assets and deferred outflows of resources	<u>\$1,137,237,748</u>	<u>\$ 307,272,974</u>
Current liabilities	\$ 48,653,297	\$ 30,395,881
Long-term liabilities	<u>23,278,197</u>	<u>18,192,395</u>
Total liabilities	<u>\$ 71,931,494</u>	<u>\$ 48,588,277</u>
Deferred inflows of resources	<u>\$ 8,779,381</u>	<u>\$ 14,032,433</u>
Total liabilities and deferred inflows of resources	<u>\$ 80,710,875</u>	<u>\$ 62,620,710</u>
Net position		
Net investment in capital assets	\$ 6,361,276	\$ 4,326,220
Unrestricted	<u>1,050,165,597</u>	<u>240,326,044</u>
Total net position	<u>\$1,056,526,873</u>	<u>\$ 244,652,265</u>

Current assets primarily consist of amounts held in cash, money market accounts, and short-term investments by MEDC and funds in the State of Michigan's equity in common cash. Interest earned on funds retained in the common cash pool of the State of Michigan is the income of the State and is not transferred to MEDC. Current assets increased by \$819.7 million primarily due to an increase of \$813.6 million in equity in common cash primarily due to increases in state appropriations for direct grants for identified industries or recipients.

Economic Development Equity Programs (EDEPs) (net) primary purpose is to provide equity funding to outside entities for economic development; not for income or profit.

Investments includes cash investments used to fund the operations of the MEDC. Non-current investments increased by \$8.1 million in fiscal year 2023 that includes a \$4.4 million increase in unrealized fair market value. Additional information on the cash investments is included in the notes to the financial statements.

Capital assets (net) at September 30, 2023 included the cost of the MEDC headquarters building, trademark, information technology equipment, and right-to-use leased buildings, leased equipment, and subscriptions net of depreciation.

Current liabilities at September 30, 2023, which primarily consist of accounts payable at year-end, including payroll obligations and compensated absences, increased by \$18.3 million mainly due to an increase in spending.

Long-term liabilities represent \$482,561 in long term compensated absences, \$12.7 million in net pension liability, and \$9.5 million in net other post-employment benefits (OPEB) liability. The increase of \$5.1 million

in long-term liabilities is mainly due to the net pension liability. Additional information on the net pension and OPEB liabilities is included in the notes to the financial statements.

Deferred outflows / inflows of resources are related to pensions and OPEB, which are discussed further in notes to the financial statements.

Overall, **net position** increased by \$811.9 million during fiscal year 2023 as a result of the preceding activities.

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

	<u>2023</u>	<u>2022</u>
Operating revenues		
Operating grants and contributions	\$1,700,524,793	\$ 375,935,848
Payments from State of Michigan	4,042,322	800,000
Interest and investment earnings	6,263,541	(7,420,543)
Other operating revenues	2,390,381	3,084,713
Total operating revenues	<u>\$1,713,221,038</u>	<u>\$ 372,400,019</u>
Operating expenses		
Salaries, wages, and other administrative expenses	\$ 59,599,729	\$ 50,085,773
Operating grants	810,225,832	211,294,354
Other operating expenses	2,335,597	1,004,781
Total operating expenses	<u>\$ 872,161,158</u>	<u>\$ 262,388,908</u>
Operating income (loss)	<u>\$ 841,059,880</u>	<u>\$ 110,011,111</u>
Change in net position	\$ 841,059,880	\$ 110,011,111
Total net position - Beginning Restated	<u>215,466,992</u>	<u>134,641,154</u>
Total net position - Ending	<u><u>\$1,056,526,873</u></u>	<u><u>\$ 244,652,265</u></u>

Operating grants and contributions included \$1.6 billion received from State appropriated funding for economic development programs and \$68.0 million in tribal gaming revenue transferred from MSF. The revenue from State appropriated programs funding increased by \$1.3 billion mainly due to an increase in appropriations for direct grants for identified industries or recipients.

Payments from State of Michigan for fiscal year 2023 include \$4.0 million from the Department of Labor and Economic Opportunity for the Mobility Futures Initiative.

Interest and investment earnings includes earnings and fair market valuation adjustments on MEDC's cash investments. Interest and investment earnings increased by \$13.7 million primarily due to an increase in fair market valuation adjustments.

Other operating revenues includes \$1.1 million in lease revenues from the Michigan Life Science and Innovation Center (MLSIC). Effective October 1, 2018, MEDC formed a for-profit limited liability company (LLC) to operate MLSIC. Additional information on this is included in the notes to the financial statements.

Operating grants for fiscal year 2023 included disbursements for business and community development programs and activities including small business support and talent retention and attraction activities, Pure Michigan, direct grants for identified industries or recipients, marketing, and other program expenses.

Operating grants increased by \$598.9 million primarily due to increased appropriations and spending in direct grants for identified industries or recipients.

Other operating expenses primarily consist of write-offs of uncollectible receivables, bad debt expense related to EDEP and loan loss provisions, payments to the State of Michigan and software depreciation. Other operating expenses increased by \$1.3 million primarily due to software depreciation because of implementing GASB 96, subscription-based information technology arrangements. Additional information on the loan loss provision and GASB 96 implementation is included in the notes to the financial statements.

Condensed Financial Information
From the Statement of Cash Flows
For the Fiscal Years Ended September 30

	<u>2023</u>	<u>2022</u>
Cash provided (used) by:		
Operating activities	\$ 840,571,484	\$ 126,378,723
Capital and related financing activities	(1,969,382)	(56,466)
Investing activities	207,939	1,141,339
Net increase (decrease) in cash	<u>\$ 838,810,041</u>	<u>\$ 127,463,596</u>
Cash and cash equivalents at beginning of year	<u>\$ 192,918,786</u>	<u>\$ 65,455,190</u>
Cash and cash equivalents at end of year	<u><u>\$1,031,728,827</u></u>	<u><u>\$ 192,918,786</u></u>

Cash and cash equivalents at end of fiscal year 2023 of \$1.0 billion included \$25.8 million of cash in accounts held at financial institutions outside of the State Treasury, and \$968.1 million of equity in the State of Michigan common cash.

Condensed Financial Information
From the Statement of Changes in Fiduciary Net Position
Pension (and other Employee Benefit) Trust Funds
For the Fiscal Years Ended September 30

	<u>2023</u>	<u>2022</u>
Additions to net position	\$ 6,525,263	\$ (1,320,676)
Deductions to net position	1,150,192	742,374
Net increase (decrease) in net position	<u>\$ 5,375,071</u>	<u>\$ (2,063,049)</u>
Plan fiduciary net position at beginning of year	<u>\$21,584,362</u>	<u>\$ 23,647,411</u>
Plan fiduciary net position at end of year	<u><u>\$26,959,433</u></u>	<u><u>\$ 21,584,362</u></u>

Additions to net position primarily consists of interest and dividends on investments, net increase (decrease) in fair value of investments, and employer and employee contributions. Additions increased by \$7.8 million mainly due to an increase in the fair value of investments.

Deductions to net position primarily consists of benefits paid to participants, administrative and investment expenses, and other deductions such as, forfeitures to reduce employer contributions to the plan and loan disbursements to participants. Deductions increased by \$407,818 mainly due to an increase in benefits paid to participants and other deductions.

Additional information on the 401(a) and 457 Plans are included in the notes to the financial statements.

BASIC FINANCIAL STATEMENTS

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Statement of Net Position

As of September 30, 2023

ASSETS

Current assets:

Cash (Note 3)	\$ 25,781,101
Equity in common cash (Note 3)	968,080,206
Money market fund and commercial paper (Note 3)	37,867,521
Amounts due from component units	3,283,121
Amount due from primary government	207,130
Amounts due from federal government	243,520
Loans receivable (net) (Note 4)	0
Investments (Note 3)	4,139,036
Other current assets	10,447,265
Total current assets	<u>\$ 1,050,048,898</u>

Noncurrent assets:

Loans receivable (net) (Note 4)	\$ 0
Economic Development Equity Programs	5,152,020
Investments (Note 3)	67,841,584
Capital assets (net) (Note 5)	6,361,276
Total noncurrent assets	<u>\$ 79,354,879</u>
Total assets	<u>\$ 1,129,403,778</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	\$ 1,358,567
Deferred outflows related to other post employment benefits	6,475,403
Total deferred outflows of resources	<u>\$ 7,833,970</u>
Total assets and deferred outflows of resources	<u>\$ 1,137,237,748</u>

LIABILITIES

Current liabilities:

Accounts payable and other liabilities	\$ 42,885,666
Compensated absences (Note 6)	2,073,098
Amounts due to primary government	2,039,983
Amounts due to component units	397,890
Vendor financing obligations (Note 7)	1,256,661
Total current liabilities	<u>\$ 48,653,297</u>

Long-term liabilities:

Compensated absences (Note 6)	\$ 482,561
Net pension liability (Note 8)	12,708,302
Net other post employment benefits liability (Note 9)	9,459,118
Vendor financing obligations (Note 7)	628,216
Total long-term liabilities	<u>\$ 23,278,197</u>
Total liabilities	<u>\$ 71,931,494</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	\$ 117,191
Deferred inflows related to other post employment benefits	8,662,190
Total inflows of resources	<u>\$ 8,779,381</u>
Total liabilities and deferred inflows of resources	<u>\$ 80,710,875</u>

NET POSITION

Net investment in capital assets	\$ 6,361,276
Unrestricted	<u>1,050,165,597</u>
Total net position	<u>\$ 1,056,526,873</u>

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2023

OPERATING REVENUES (Note 1)

Operating grants and contributions

Payments from MSF - State appropriated programs	\$ 1,598,102,461
Payments from MSF - Tribal gaming and other revenue and fees	102,334,116
Other operating grants and contributions	88,216
Total operating grants and contributions	<u>\$ 1,700,524,793</u>

<u>Payments from the State of Michigan - General Fund</u>	\$ 4,042,322
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Interest and investment earnings

Investment earnings	\$ 2,673,787
Net increase (decrease) in fair value of investments	3,589,754
Total interest and investment earnings	<u>\$ 6,263,541</u>

Other operating revenues

Other operating revenues	\$ 2,390,381
Total other operating revenues	<u>\$ 2,390,381</u>
Total operating revenues	<u>\$ 1,713,221,038</u>

OPERATING EXPENSES (Note 1)

Salaries, wages, and other administrative expenses	\$ 59,599,729
Operating grants	810,225,832
Other operating expenses	2,335,597
Total operating expenses	<u>\$ 872,161,158</u>

Operating income (loss)	<u>\$ 841,059,880</u>
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Change in net position	\$ 841,059,880
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Total net position - Beginning Restated (Note 2)	<u>215,466,992</u>
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Total net position - Ending	<u><u>\$ 1,056,526,873</u></u>
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The accompanying notes are an integral part of the financial statements.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Cash Flows
For the Fiscal Year Ended September 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Payments to employees	\$ (34,957,337)
Payments to suppliers	(24,272,773)
Other operating revenue	(7,687,724)
Grants received from federal government	(88,216)
Operating grants, loans, and EDEPs	(796,088,323)
Payment to primary government	1,308,974
Payment to component unit	164,314
Payments from primary government	4,042,322
Payments from component unit	1,698,150,248
Net cash provided (used) by operating activities	<u>\$ 840,571,484</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	\$ (154,418)
Vendor financing payments	(1,814,964)
Net cash provided (used) by capital and related financing activities	<u>\$ (1,969,382)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases, sales, and maturities of investment securities (net)	\$ (2,370,393)
Interest and dividends on investments	2,578,332
Net cash provided (used) by investing activities	<u>\$ 207,939</u>
Net cash provided (used) - All activities	\$ 838,810,041
Cash and cash equivalents at beginning of year	<u>192,918,786</u>
Cash and cash equivalents at end of year	<u>\$ 1,031,728,827</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Per statement of net position classifications:	
Cash	\$ 25,781,101
Equity in common cash	968,080,206
Money market fund and commercial paper	<u>37,867,521</u>
Cash and cash equivalents at end of year	<u>\$ 1,031,728,827</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED)

BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 841,059,880
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Interest (nonprogram) and investment income	(2,578,332)
Depreciation	2,016,185
Pension expense	2,885,051
Other post employment benefits expense	(1,232,649)
Deferred outflows - Contributions subsequent to measurement date	(2,458,813)
Net increase (decrease) in fair value of investments	(3,589,754)
Changes in assets and liabilities:	
Amounts due from MSF and tribal gaming revenue receivable	(2,374,545)
Other assets	(10,261,776)
Accounts payable and other liabilities	<u>17,106,237</u>
Net cash provided (used) by operating activities	<u>\$ 840,571,484</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase/(decrease) in fair value of investments	\$ 4,431,158
Net noncash provided (used) by investing, capital, and financing activities	<u>\$ 4,431,158</u>

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Statement of Fiduciary Net Position

Pension (and Other Employee Benefit) Trust Funds

As of September 30, 2023

	<u>401a Plan</u>	<u>457 Plan</u>	<u>Total</u>
ASSETS			
Cash	\$ 7,892	\$ 14,340	\$ 22,232
Money market funds	845,092	667,095	1,512,186
Participant-directed investments at fair value:			
Mutual funds	5,631,391	11,879,971	17,511,362
Pooled investment funds	7,625,589		7,625,589
Participant loans	247,314		247,314
Other Assets		62,980	62,980
Total assets	<u>\$ 14,357,278</u>	<u>\$ 12,624,387</u>	<u>\$ 26,981,664</u>
LIABILITIES			
Accounts payable and other liabilities	\$ 7,891	\$ 14,340	\$ 22,231
Total liabilities	<u>\$ 7,891</u>	<u>\$ 14,340</u>	<u>\$ 22,231</u>
PLAN NET POSITION	<u><u>\$ 14,349,387</u></u>	<u><u>\$ 12,610,046</u></u>	<u><u>\$ 26,959,433</u></u>

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Statement of Changes in Fiduciary Net Position
Pension (and Other Employee Benefit) Trust Funds
For the Fiscal Year Ended September 30, 2023

	<u>401a Plan</u>	<u>457 Plan</u>	<u>Total</u>
ADDITIONS TO NET POSITION			
Investment income (loss):			
Interest and dividends	\$ 232,496	\$ 455,877	\$ 688,373
Net increase (decrease) in fair value of investments	<u>1,535,207</u>	<u>1,115,499</u>	<u>2,650,706</u>
Total investment income (loss)	<u>\$ 1,767,703</u>	<u>\$ 1,571,376</u>	<u>\$ 3,339,079</u>
Contributions:			
Employer	\$ 1,648,938	\$	\$ 1,648,938
Employee		<u>1,380,076</u>	<u>1,380,076</u>
Total contributions	<u>\$ 1,648,938</u>	<u>\$ 1,380,076</u>	<u>\$ 3,029,014</u>
Miscellaneous income	<u>\$ 157,160</u>	<u>\$ 10</u>	<u>\$ 157,170</u>
Total additions	<u>\$ 3,573,801</u>	<u>\$ 2,951,462</u>	<u>\$ 6,525,263</u>
DEDUCTIONS TO NET POSITION			
Benefits paid to participants	\$ 400,773	\$ 433,454	\$ 834,227
Administrative and investment expenses	46,064	37,090	83,154
Other deductions	<u>232,810</u>		<u>232,810</u>
Total deductions	<u>\$ 679,648</u>	<u>\$ 470,544</u>	<u>\$ 1,150,192</u>
NET INCREASE (DECREASE) IN NET POSITION	<u>\$ 2,894,153</u>	<u>\$ 2,480,918</u>	<u>\$ 5,375,071</u>
PLAN NET POSITION			
Beginning of fiscal year	<u>\$ 11,455,234</u>	<u>\$ 10,129,128</u>	<u>\$ 21,584,362</u>
End of fiscal year	<u><u>\$ 14,349,387</u></u>	<u><u>\$ 12,610,046</u></u>	<u><u>\$ 26,959,433</u></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 Economic Development Corporation (MEDC) conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Standards. The following is a summary of the more significant policies:

a. Reporting Entity

Article VII, Section 28 of the Michigan Constitution and Act 7, P.A. 1967, provided for the creation of MEDC as a public body corporate. MEDC was created in April 1999 by a 10-year contract (interlocal agreement, as amended) between a participating local economic development corporation formed under Act 338, P.A. 1974, as amended, and the Michigan Strategic Fund (MSF). Article VI of the interlocal agreement provides for the automatic renewal of this initial 10-year term for two renewal periods of five years each. In April 2018, an amendment to the interlocal agreement became effective which extends the term for an additional ten year period from April 4, 2019, with automatic five year renewals. MEDC is a separate legal entity created to promote economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents. Under the terms of the agreement, the governance of MEDC resides in an Executive Committee of 20 members appointed to eight-year, staggered terms by the Governor.

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

MEDC is a discretely presented component unit of the financial reporting entity of the State of Michigan because the primary government appoints a voting majority of the governing board of MEDC and there is a potential for MEDC to provide specific financial benefits to, or impose specific financial burdens on, the State. The financial statements of MEDC are included in the State of Michigan Annual Comprehensive Financial Report.

Executive Order No. 2019-13, effective August 2019, created the Department of Labor and Economic Opportunity (DLEO) and transferred MSF from the Department of Talent and Economic Development. MEDC functions within DLEO's organizational structure.

Component Unit

MEDC formed a for-profit limited liability company (LLC) to operate the Michigan Life Science and Innovation Center program (MLSIC). The company, MLSIC, LLC, was created on October 1, 2018. The company provides facility and property management, and related services to the building in which the MLSIC program operates. The company is included as a component unit of the financial reporting entity because the nature and significance of its relationship with MEDC are such that exclusion would cause MEDC's financial statements to be misleading and

incomplete. MEDC's governing body is the same as that of the company, there is a financial burden/benefit relationship between the entities, and MEDC management manages the activities of the company in a similar manner in which it manages its own activities. Therefore, the company is reported as though it was part of MEDC using the blended method. The company does not issue separate financial statements. Condensed combining information regarding the component unit is provided in Note 11.

b. Financial Statement Presentation

MEDC follows the business-type activities reporting requirements of GASB. The statement of net position presents MEDC's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources represents the MEDC's net position. Net position is reported in two categories:

- (1) Net investment in capital assets consists of capital assets, net of accumulated depreciation.
- (2) Unrestricted net position consists of net position that does not meet the definition of restricted or capital assets. Unrestricted net position often has constraints on resources that are imposed by Executive management and the Executive Committee, but can be removed or modified.

The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Operating revenues include State appropriated funding and tribal gaming revenue for economic development programs, as well as interest and investment earnings.

The statement of cash flows presents MEDC's relevant information about the cash receipts and cash payments during the period.

Separate financial statements are provided for the proprietary and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements.

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

c. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the economic resources measurement focus and the accrual basis of accounting as provided by GAAP applicable to governments. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

d. Financial Data

Major Account Classifications: Assets, Liabilities, and Net Position:

- (1) Cash and Cash Equivalents: The amount reported as "Cash and cash equivalents at end of year" on the statement of cash flows is equal to the total of the amounts reported on the statement of net position for the line items entitled "Cash," "Equity in common cash," and "Money market fund and commercial paper."
- (2) Amounts Due From Component Units: Amounts due from component units include the tribal gaming revenue from MSF.
- (3) Investments: MEDC reports investments in the money market fund, corporate securities, equities, and exchange-traded funds (ETFs) at fair value.
- (4) Loans Receivable: Loans receivable are reported net of allowance for losses.
- (5) Economic Development Equity Programs (EDEPs): EDEPs primary purpose is economic development and not income or profit; therefore, the cost method is the appropriate measurement basis.
- (6) Capital Assets: Capital assets, which mainly include a building, subscriptions, and equipment, are reported at historical cost, net of depreciation.
- (7) Current Liabilities: Current liabilities primarily include accounts payable established for program and administrative expenses, the current portion of vendor financing obligations, the current portion of compensated absences, amounts due to primary government, and amounts due to component units.
- (8) Long-Term Liabilities: Long-term liabilities include compensated absences (employees' unused sick, banked, and annual leave payable when employees terminate employment), vendor financing obligations, net pension liability, and net OPEB liabilities.
- (9) Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. MEDC has deferred outflows related to pensions and other postemployment benefits. In addition to liabilities, the statement of net position will sometimes report 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 and so will not be recognized as an inflow of resources (revenue) until that time. MEDC has deferred inflows related to pensions and other postemployment benefits.

Major Account Classifications: Revenues, Expenses and Additions/Deductions:

- (1) Operating Revenues: Operating revenues include revenues from restricted sources, amounts available to MEDC from State appropriations and investment earnings. Also included in operating revenues are tribal gaming revenues, PAB issuance fees, and Michigan Economic Growth Authority and Brownfield fees collected by MSF required to be transferred to MEDC.

- (2) Operating Expenses: Operating expenses primarily include salaries, wages and other administrative expenses, forgivable loans, and expenses related to program grants funded by State appropriations transferred to MEDC and MEDC non-appropriated funds.

e. Fiduciary funds - 401(a) and 457 Plans

Additions to net position include interest, dividends, net increase (decrease) in fair value of investments, and contributions from MEDC (401(a) plan) and employees (457 plan). Deductions to net position include benefits paid to participants, administrative and investment expenses and other deductions. Assets include participant loans, money market funds, mutual funds and pooled investment funds reported at fair market value.

- (1) 401(a) and 457 Plan Investments: Investments in the mutual funds and pooled investment funds are stated at fair value based on quoted market prices. The value of the Plan's position in the common cash fund and money market fund is equivalent to the fair value of the common cash and cash equivalent fund shares. Investments measured at fair value are determined based on the active market, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates as well.

- (2) Participants Loans: Participant loans are stated at the outstanding principle amount and interest.

Note 2 **Accounting Changes and Restatements**

Beginning in fiscal year 2023 the MEDC no longer recognizes revenue or reports a receivable for certain tribal gaming revenues not received as of September 30. As a result, beginning net position decreased by \$29,608,004 for fiscal year 2023 to account for the prior period error.

During fiscal year 2023, the MEDC implemented GASB 96, *Subscription-Based Information Technology Arrangements*. As a result, the MEDC now reports liabilities and right-to-use subscription assets (capital assets) for subscriptions which meet the criteria of GASB 96 beginning in fiscal year 2023. As a result, beginning net position increased by \$422,732 for fiscal year 2023.

Note 3 **Deposits and Investments**

MEDC Deposits and Investments

a. Deposits

Deposits held by MEDC at September 30, 2023, were as follows:

Equity in common cash	\$968,080,206
Checking accounts	<u>25,781,101</u>
Total deposits	<u>\$993,861,307</u>

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

securities held by the pledging financial institution's trust department or agent but not in MEDC's name.

Deposits included in MEDC's bank accounts (without recognition of outstanding checks or deposits in transit) were \$25,815,272 at September 30, 2023. Of that amount, \$202,210 was uncollateralized and uninsured and \$500,000 was insured. There were deposits of \$25,113,062 collateralized with securities held by the pledging financial institution or by the pledging financial institutions trust department or agent but not in MEDC's name. MEDC has no policy for controlling custodial credit risk.

MEDC's deposits included in the State of Michigan's equity in common cash are managed by the State Treasurer. The State Treasurer's policy requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2023, 99.95% of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*.

b. Investments

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

- (1) Securities issued or guaranteed by the U.S. Government or its agencies.
- (2) Bonds or other obligations of any U.S. state or any local unit of government of any such state.
- (3) Repurchase agreements fully collateralized by U.S. Government securities.
- (4) Corporate and bank debt including, but not limited to, commercial paper, banker's acceptances, and other short-term obligations.
- (5) Corporate notes and bonds.
- (6) Taxable bond funds.
- (7) Money market mutual fund shares that offer daily purchase and redemption.
- (8) Investment pools composed entirely of instruments that are legal for direct investment by the MEDC.
- (9) Treasury Inflation Protected Securities (TIPS).
- (10) Domestic and international equity mutual funds including exchange traded funds and publicly traded Real Estate Investment Trust securities.

MEDC investments in the money market fund, commercial paper, corporate securities, ETFs, real estate investment trusts (REITs), and equities are reported at fair value. The fair value is determined by the investment custodian and provided to MEDC in monthly statements.

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

The following table shows the fair value of investments at September 30, 2023, by investment type and in total:

Investment Type	Fair Value
Money market fund & commercial paper	\$ 37,867,521
Corporate securities	35,880,592
Equities	8,660
Mutual funds (ETFs)	36,091,367
Total investments	<u>\$ 109,848,140</u>

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

- (1) Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. MEDC does not have a policy regarding interest rate risk. As of September 30, 2023, the average maturities of investments exposed to interest rate risk were as follows:

<u>Investment Maturities</u>					
Investment Type	Fair Value	Less Than or Equal to 1 Years	Greater Than 1 to 5 Years	Greater Than 5 to 10 Years	More Than 10 Years
Money market fund/commercial paper	\$37,867,521	\$37,867,521	\$ 0	\$ 0	\$ 0
Corporate securities	\$35,880,592	\$ 4,139,036	\$31,224,900	\$392,995	\$ 123,661

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

As of September 30, 2023, MEDC's investments in corporate securities, mutual funds, and equities were not exposed to custodial credit risk because they are registered in MEDC's name and held by Fifth Third Bank.

- (3) Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GAAP requires disclosures of the credit quality ratings of investments in debt securities. MEDC had the following policy for controlling credit risk of debt securities in fiscal year 2023. Short-term investments (less than one year) shall have

a credit rating of not less than A-1/P-1 at the time of purchase and an underlying long-term credit quality of not less than BBB as rated by at least two of the following national rating agencies: Moody's, Standard and Poor's, or Fitch. Long-term investments shall have a credit rating equal to BBB or better at the time of purchase by at least two of the following national rating agencies: Moody's, Standard and Poor's, or Fitch. The overall average quality rating of the fixed income portfolio shall have a credit rating of A- or better.

The following table shows the credit quality ratings of investments in debt securities as of September 30, 2023:

Investment Type	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Corporate Securities	\$ 16,933,824	AA+	Aaa
	572,299	AA+	NR
	102,115	AA	Aa3
	430,530	AA-	Aa2
	1,608,314	AA-	Aa3
	536,262	A+	A1
	343,196	A+	A3
	1,027,186	A+	Aa3
	1,804,471	A	A1
	857,389	A	A2
	1,474,963	A-	A1
	794,906	A-	A2
	1,972,149	A-	A3
	359,065	A-	Baa1
	139,724	BBB+	A1
	728,418	BBB+	A2
	924,537	BBB+	A3
	1,772,623	BBB+	Baa1
	234,573	BBB+	Baa2
	190,290	BBB	A3
	909,136	BBB	Baa1
	1,086,521	BBB	Baa2
	322,766	NR	Aa1
Mutual Funds	36,091,367	Unrated	Unrated
Money Market Funds	37,867,521	Unrated	Unrated
Total Investments	<u>\$109,084,144</u>		

- (4) Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments or deposits. As of September 30, 2023, MEDC did not have any investments in foreign securities.
- (5) Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MEDC's investments with a single issuer. MEDC's investment policy limits investments in securities in a single issuer, other than those issued by the U.S. government or its agencies, in money market mutual funds, and government instrumentalities to a maximum of 5% of its total portfolio. MEDC had no investments in companies for more than 5% of MEDC's total investments at September 30, 2023.

c. Fair Value Measurement

The MEDC 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 securities are valued using quoted prices in active markets for those securities; Level 2 securities are valued using significant other observable securities; Level 3 securities are valued using significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where 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 MEDC's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The MEDC has the following recurring fair value measurements as of September 30, 2023:

Investments by Fair Value Level	Balance at September 30, 2023	Fair Market Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Corporate bonds and notes	\$ 35,880,592	\$35,880,592	\$	\$
Total debt securities	\$ 35,880,592	\$35,880,592	\$ 0	\$ 0
Equity Securities				
Equity	\$ 8,660	\$ 8,660	\$	\$
Mutual bonds/Equity funds	36,091,367	36,091,367		
Total Equity Securities	\$ 36,100,027	\$36,100,027	\$ 0	\$ 0
Total Investments by Fair Value Level	\$ 71,980,619	\$71,980,619	\$ 0	\$ 0

Fiduciary Funds

a. Deposits

Deposits held by the Plan at September 30, 2023 included a \$1,512,186 money market account.

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

Deposits included in the Plan's money market account were \$1,512,186 at September 30, 2023. Of that amount, \$1,262,186 was uncollateralized and uninsured and \$250,000 was insured. The Plan has no policy for controlling custodial credit risk.

b. Investments

MEDC trustees, with advice from Alerus, select investments in alignment with the Plan's investment Policy Statement (IPS), Trust agreement, or any other documents governing the Plan. Except as required under auto-enrollment in the MEDC's 401(a) Plan Document, all participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices made available by the trustee and those policies or procedures determined by the administration from time to time.

Two investment tiers have been developed to classify the investments available to participants, based upon the general investment strategy. Tier I contains funds that have a passive investment strategy. These investments are managed to mirror investment performance of an established index. Tier II contains funds that have an active investment strategy. These investments are managed actively by an investment advisor using a specific fund investment objective. A brief summary of the types of investments included in each tier follows:

(1) Tier I

Mutual funds include Vanguard 500 Index Admiral Fund, Vanguard Small Cap Index Admiral Fund, and Vanguard Index Trust Mid-Cap Index Fund. Tier I also includes pooled investment funds maintained by Alerus Financial, the Alerus managed Trusts consist of a portfolio composition of U.S. Stocks, Non-U.S. stocks, bonds and cash which seeks to provide growth through capital appreciation. Alerus Aggressive Growth Direct Collective Investment Trust allocates 80-100% of its assets to equity securities and the remainder of the Trust's assets allocated to fixed income securities. Alerus Moderate Growth Direct Collective Investment Trust allocates 65-80% of its assets to equity securities with the remainder of the assets allocated to fixed income securities. Alerus Conservative Growth Direct Collective Investment Trust allocates 50-65% of its assets to equity securities with the remainder of the assets allocated to fixed income securities. Alerus Moderate Income Direct Collective Investment Trusts allocates 35-50% of its assets to equity with the remainder to fixed income securities. Alerus Conservative Income Direct Collective Investment Trust allocates 60-75% of its assets to fixed income securities with the remainder to equity securities.

(2) Tier II

T Rowe Price All Cap Opportunities fund seeks to provide long-term capital growth. The fund invests primarily (at least 65% of its total assets) in common stocks of U.S. companies with the fastest growing or greatest growth potential.

Dodge and Cox Income fund invests in high-quality bonds and investment-grade debt securities. Dimensional US Targeted Value Portfolio purchases a broad and diverse group of the readily marketable securities of U.S. small and mid-cap companies determined to be value stocks with higher profitability. Dodge and Cox International Fund seeks long-term growth of principal and income. The fund typically invests in equity securities issued by medium-to-large, well-established non-U.S. companies with favorable outlook for long-term growth. Dimensional Emerging Markets seeks long-term capital appreciation and purchases a broad and diverse group of securities associated with emerging markets which may include frontier markets. Dimensional International Small Cap Value purchases securities of small, non-U.S. companies in countries with developed markets determined to be value stocks at the time of purchase.

In addition, Janus Enterprise seeks long-term growth of capital investing primarily in common stocks selected for their growth potential, and normally invests at least 50% of its equity assets in medium-sized companies. Franklin Convertible Securities fund invests at least 80% of its net assets in convertible securities. Loomis Sayles Global fund invests primarily in investment grade fixed income securities worldwide. The Fidelity Balance fund seeks income and capital growth consistent with reasonable risk. Cohen & Steers Realty invests at least 80% in common stocks and equity securities issued by real estate companies. First Eagle Global Fund invests its assets primarily in common stocks of U.S. and foreign companies. Vanguard Selected Value Fund invests mainly in stocks of mid-size U.S. companies, choosing stocks considered undervalued. Vanguard Equity Income Fund typically invests in slower-growing, higher-yielding companies that are dedicated to consistently paying dividends. Vanguard High-Yield Corporate Fund invests in a diversified portfolio of medium- and lower-quality corporate bonds. Vanguard Wellington Fund invests in established medium-size and large companies as well as investment-grade corporate bonds.

Investment Risk: The Plan's investments are subject to several types of risk. As of September 30, 2023, the Plan did not have any investments subject to custodial credit risk or concentration of credit risk. However, investment products are not FDIC insured; are not deposits or obligations of a bank; and involve investment risk, including possible loss of the principal amount invested.

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 Plan's investments do not restrict investment maturities.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Fiduciary Funds - Interest Rate Risk

As of September 30, 2023

Fund	Investment Type	Fair Value	Weighted Average Maturity (Year)
Dodge & Cox Income Fund	Mutual Funds - Bonds	\$ 1,188,095	10.40
Vanguard High-Yield Corporate Fund	Mutual Funds - Bonds	\$ 591,590	4.80
Vanguard Wellington Admiral Shares Fund	Mutual Funds - Balanced	\$ 95,832	10.20
Fidelity Balanced Fund	Mutual Funds - Balanced	\$ 307,752	*
Franklin Convertible Securities Adv	Mutual Funds - Bonds	\$ 666,596	**
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	\$ 301,703	8.02
Alerus Consv Income Fund Direct Shares	Collective Funds - Fixed Income	\$ 86,591	8.22
Alerus Moderate Income Fund Direct Shares	Collective Funds - Fixed Income	\$ 139,709	8.21
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	\$ 1,400,565	8.40
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	\$ 2,941,480	8.40

* No single average maturity figure provided.

** No maturity statistics available.

Credit Risk: Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligation. The Plan has an investment policy that limits its investment choices. The investment choices are defined by tiers as described in the preceding paragraph. As of September 30, 2023 the credit quality ratings of debt securities subject to credit risk (other than U.S. government securities) are shown below:

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

Fiduciary Funds - Credit Risk

As of September 30, 2023

Fund	Investment Type	Fair Value	Duration (Years)	Rating	Organization
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	\$ 301,703	6.85	BA to AAA	Middle credit rating among Moody's/S&P/Fitch
Dodge & Cox Income Fund	Mutual Funds - Bonds	\$ 1,188,095	5.7	B to AAA	Middle rating from Moody's/S&P/Fitch
Vanguard High-Yield Corporate Fund	Mutual Funds - Bonds	\$ 591,590	3.7	CCC & Lower to Aa/U.S. Government 4.4%	Moody's/S&P
Vanguard Wellington Admiral Shares Fund	Mutual Funds - Balanced	\$ 95,832	6.6	Ba1 to A3/U.S. Government 27.13%	Moody's/S&P/Fitch
Franklin Convertible Securities Adv	Mutual Funds - Bonds	\$ 666,596	1.67	NR 87.67%/B to A	Middle rating from Moody's/S&P/Fitch
Fidelity Balanced Fund	Mutual Funds - Balanced	\$ 307,752	5.58	CCC & Below to AAA/U.S. Government 60.60%	Moody's /S&P/Fitch
Alerus Consv Income Fund Direct Shares	Collective Funds - Fixed Income	\$ 86,591	5.86	*	Moody's/S&P/Fitch
Alerus Moderate Income Fund Direct Shares	Collective Funds - Fixed Income	\$ 139,709	5.86	*	Moody's/S&P/Fitch
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	\$ 1,400,565	5.94	*	Moody's/S&P/Fitch
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	\$ 2,941,480	5.94	*	Moody's/S&P/Fitch

* No single rating provided.

Foreign Currency Risk: Foreign currency risk is the risk that investments in securities traded in foreign currencies or more directly in foreign currencies may decline in value relative to the U.S. dollar, which may reduce the value of the portfolio. As of September 30, 2023 the investments (other than U.S. government securities) shown below were subject to foreign currency risk:

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Fiduciary Funds - Foreign Currency Risk
As of September 30, 2023

Fund	Investment Type	Foreign Currency	Fair Value
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	Various	\$ 301,703
Dimensional Emerging Markets	Mutual Funds - International Equity	Various	\$ 381,655
Dimensional International Small Cap Value	Mutual Funds - International Equity	Various	\$ 177,001
First Eagle Global Fund	Mutual Funds - Balanced	Various	\$ 267,312
Dodge & Cox International	Mutual Funds - International Equity	Various	\$ 1,097,279
Alerus Moderate Income Fund Direct Shares	Collective Funds - Fixed Income	Various	\$ 139,709
Alerus Aggressive Growth Fund Direct Shares	Collective Funds - Equity	Various	\$ 3,057,244
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	Various	\$ 2,941,480
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	Various	\$ 1,400,565
Janus Enterprise FD CL T (1050)	Mutual Funds - Domestic Equity	Various	\$ 505,407
Franklin Convertible Securities Fund Adv	Mutual Funds - Bonds	Various	\$ 666,596
Fidelity Balanced Fund	Mutual Funds - Balanced	Various	\$ 307,752
Cohen & Steers Instl Realty Shares	Mutual Funds - Domestic Equity	Various	\$ 408,017
T Rowe Price All Cap Opportunities	Mutual Funds - Domestic Equity	Various	\$ 3,974,200

Fair Value of Investments - Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application, which establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan's money market fund, mutual funds, and pooled investment funds are all measured at Level 1 using quoted prices in active markets for the actual or identical investment. Market prices are generally obtained from relevant exchanges or markets.

The Plan has the following recurring fair value measurements as of September 30, 2023 shown below:

Investments by Fair Value Level	Balance at September 30, 2023	Fair Market Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 17,511,362	\$ 17,511,362	\$ 0	\$ 0
Pooled Investment Funds	7,625,589	7,625,589	0	0
Total Investments by Fair Value Level	\$ 25,136,952	\$ 25,136,952	\$ 0	\$ 0

Note 4 **Loans Receivable**

Loans receivable held by MEDC as of September 30, 2023 consisted of the following:

Loan Category	Loans Receivable
Michigan Core Community Fund Program	\$ 5,402,439
Follow-On Fund	0
Total	\$ 5,402,439
Less: Allowance for uncollectible loans	(5,402,439)
Total Loans Receivable	\$ 0

The current portion of loans receivable includes those payments expected to be received during the next fiscal year.

Note 5 **Capital Assets**

a. **Capital Assets**

MEDC records its capital assets at cost and depreciates applicable capital assets over their useful lives using the straight-line depreciation method (30 years for building and improvement, 5 years for furniture and equipment, and the length of the contract term for right-to-use capital assets).

Building and improvements are capitalized when the total cost exceeds \$100,000; equipment and furniture are capitalized when the cost of individual items exceeds \$5,000; intangible assets are capitalized when the cost of individual items exceeds \$100,000; right-to-use lease assets are capitalized when the lease term exceeds 12 months and total annual lease payments exceed \$5,000; and right-to-use subscriptions are capitalized when the subscription term exceeds 12 months and total annual subscription payments exceed \$5,000.

Capital asset activities for the fiscal year ended September 30, 2023 were as follows:

Capital Assets	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Intangibles	\$ 100,000	\$	\$	\$ 100,000
Total capital assets, not being Depreciated	\$ 100,000	\$ 0	\$ 0	\$ 100,000
Building and improvement	\$ 13,086,970	\$	\$	\$ 13,086,970
Information technology equipment	638,427	154,418		792,845
Right-to-use leased buildings	15,451		(15,451)	
Right-to-use leased equipment	230,413		(9,982)	220,431
Right-to-use subscriptions	3,971,424	2,152,206	(898,010)	5,225,620
Capital assets (cost)	\$ 17,942,685	\$ 2,306,624	\$ (923,443)	\$ 19,325,867
Less accumulated depreciation for:				
Building and improvement	\$ (9,193,884)	\$ (436,608)	\$	\$ (9,630,492)
Information technology equipment	(506,341)	(79,214)		(585,555)
Right-to-use leased buildings	(5,150)		5,150	
Right-to-use leased equipment	(39,666)	(40,078)	17,527	(62,217)
Right-to-use subscriptions	(2,224,053)	(1,460,285)	898,010	(2,786,328)
Total accumulated depreciation	\$ (11,969,094)	\$ (2,016,185)	\$ 920,688	\$ (13,064,591)
Capital assets (net)	\$ 6,073,592	\$ 290,439	\$ (2,755)	\$ 6,361,276

Note 6 Long-Term Liabilities

Long-term liabilities are accrued when incurred. The following table summarizes compensated absences, net pension, and net OPEB liabilities of MEDC for the fiscal year ended September 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,879,613	\$ 1,216,196	\$ 540,150	\$ 2,555,659	\$ 2,073,098
Net Pension Liability	\$ 7,812,117	\$ 4,896,185	\$ 0	\$ 12,708,302	\$ 0
Net OPEB Liabilities	\$ 9,777,450	\$ 378,745	\$ 697,077	\$ 9,459,118	\$ 0

a. Compensated Absences

Liabilities for compensated absences were included in the statement of net position. These liabilities represent unused sick, banked, and annual leave accrued, which will be paid when the employees terminate employment by the applicable funds that account for the salaries and wages of the related employees. The liability is calculated using 100% of the employees' applicable annual, banked leave, sick, and vacation time plus the Employer's share of social security and retirement contributions based on the pay rates in effect as of September 30, 2023.

b. Net Pension Liability

Liabilities for the net pension liability were included in the statement of net position. Additional disclosures describing the net pension liability are provided in Note 8.

c. Net Other Postemployment Benefits Liabilities

Liabilities for the net other postemployment benefits (OPEB) liabilities were included in the statement of net position. Additional disclosures describing the net OPEB liabilities are provided in Note 9.

Note 7 Vendor Financing

MEDC acquires some capital assets with long-term vendor financing. Contracts that convey control of the right to use other entities' nonfinancial assets, other than software, to the MEDC are classified as leases. Contracts that convey control of the right to use other entities' IT software, alone or in combination with tangible capital assets, are classified as subscription-based information technology arrangements (SBITAs).

Assets and liabilities resulting from vendor financing arrangements are recorded when the MEDC acquires the assets or is granted the right to use the assets. The principal portion of vendor financing payments reduces the liability; the interest portion is expensed.

Financing agreements may include extension or termination options. The effect of such options is included in the calculation of the contract term and the measurement of the lease liability only if the MEDC is reasonably certain that the option will be exercised.

The following table summarizes lease requirements for the fiscal year ended September 30, 2023:

Fiscal Year Ending September 30	Principal	Interest	Total
2024	\$ 43,981	\$ 815	\$ 44,796
2025	43,713	1,083	44,796
2026	43,447	1,349	44,796
2027	41,081	1,333	42,414
2028	0	0	0
2029 - 2033	0	0	0
Total	<u>\$ 172,222</u>	<u>\$ 4,580</u>	<u>\$ 176,802</u>

For the fiscal year ended September 30, 2023, MEDC was committed to equipment lease agreements which allow for variable payment charges based on usage. These variable payments are not included in the lease liability amount and totaled \$12,808 for the fiscal year.

The following table summarizes SBITA requirements for the fiscal year ended September 30, 2023:

Fiscal Year Ending September 30	Principal	Interest	Total
2024	\$ 1,212,680	\$ 46,148	\$ 1,258,828
2025	309,763	14,300	324,063
2026	106,932	5,302	112,234
2027	83,280	2,312	85,592
2028	0	0	0
2029 - 2033	0	0	0
Total	<u>\$ 1,712,655</u>	<u>\$ 68,062</u>	<u>\$ 1,780,717</u>

Note 8 Pension Plans

State of Michigan Classified Employees Defined Benefit Plan

a. Plan Description

The Michigan State Employees Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. 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 authority to promulgate or amend the provisions of the System. 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 Employee's 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 Michigan State Employees' Retirement System defined benefit pension is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Contact Center at (517) 284-4400 or 1-800-381-5111.

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

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously

received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

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

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

(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 DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate state employment. The 4% contribution began on April 1, 2012.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

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

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

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

not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

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

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

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

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

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

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

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

(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 Community Health 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 non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

(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:

(a) 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.

(b) 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.

- (c) 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.
- (d) 50% Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.
- (e) Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100%, 75% or 50% option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.
- (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 the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

(2) Employer Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2023, the component unit's contribution rate was 23.11% of the defined benefit employee wages and 18.05% of the defined contribution employee wages. The MEDC's contribution to SERS for the fiscal year ending September 30, 2023 was \$1,358,567.

d. Actuarial Assumptions

The MEDC's net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021, 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	2.75%
Projected Salary Increases	2.75 - 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.0%
Cost-of-Living Pension Adjustment	3% Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

Mortality rates were based on RP-2014 Male and Female Mortality Tables, adjusted for mortality improvements. For retirees, 93% of the table rates were used for males and 98% for females. For active members and disabled retirees, 100% of the table rates were used for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2022, are summarized in the following table:

<u>Asset Allocation</u>		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.1 %
Private Equity Pools	16.0%	8.7 %
International Equity Pools	15.0%	6.7 %
Fixed Income Pools	13.0%	(0.2) %
Real Estate and Infrastructure Pools	10.0%	5.3 %
Absolute Return Pools	9.0%	2.7 %
Real Return and Opportunistic Pools	10.0%	5.8 %
Short Term Investment Pools	2.0%	(0.5) %
Total	100.0%	

* Long-term rates of return are net of administrative expenses and 2.2% inflation.

e. Discount Rate

A discount rate of 6.0% 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 6.0%. 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, 2023, the MEDC reported a liability of \$12,708,302 for its proportionate share of participating employers' net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021, and rolled-forward using generally accepted actuarial procedures. The MEDC's proportion of the net pension liability was based on the MEDC's required pension contributions received by SERS during the measurement period October 1, 2021, through September 30, 2022, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2022, the MEDC's proportion was .197%, a .005% increase from September 30, 2021.

Assumption changes are based on the adoption of the findings of an experience study for the period 2012 through 2017.

g. Pension Liability Sensitivity

The following presents the MEDC's proportionate share of the net pension liability calculated using the discount rate of 6.0% 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 5.0%	Current Discount 6.0%	1% Increase 7.0%
Component Unit's proportionate share of the net pension liability	\$ 16,598,703	\$ 12,708,302	\$ 9,401,048

h. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the SERS Annual Comprehensive Financial Report that 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 purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employee's Retirement System (SERS) and additions to / deductions from SERS's fiduciary net position have been determined on the accrual basis as they are reported by SERS. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the benefit terms.

For the year ended September 30, 2023, the MEDC recognized pension expense of \$2,885,051. At September 30, 2023, the MEDC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on investments	0	117,191
Changes in proportion and difference between actual contributions and proportionate share of contributions	0	0
Component Unit contributions subsequent to the measurement date	1,358,567	0
Total	\$ 1,358,567	\$ 117,191

Amounts reported as deferred outflows of resources related to pensions resulting from MEDC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2024	\$ (160,588)
2025	\$ (250,850)
2026	\$ (326,890)
2027	\$ 621,137

Currently, deferred outflows and inflows of resources related to pensions that will be recognized in pension expense do not extend beyond the four years identified in the table above.

j. Fair Value of Investments

Plan Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to the independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at fair value.

k. Defined Contribution Plan

For the State Employees' Defined Contribution Retirement Plan, MEDC is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. MEDC's contribution to the plan was \$361,264 in fiscal year 2023. Employees participating in the defined contribution plan vest in employer contributions at 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.

Forfeited employer contributions are retained with the defined contribution plan are used toward future employer required contributions. The contribution requirements of plan members and the MEDC 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 of the plans.

Michigan Economic Development Corporation Nonclassified Employees

a. **Defined Contribution Plan**

MSF reimburses MEDC for MEDC nonclassified employees working on MSF programs. MEDC offers a defined contribution plan (under Section 401(a) of the Internal Revenue Code) to nonclassified employees after one year of service. MEDC also offers a deferred compensation plan (under Section 457 of the Internal Revenue Code) to nonclassified employees upon employment. Both plans are administered by Alerus Retirement Solutions, a third party administrator, and the employees manage their own investments. Other than making contributions to the 401(a) retirement plan, neither MEDC nor MSF have any other pension benefit obligation liability. Neither MEDC nor MSF make any contributions to the 457 deferred compensation plan. Only employees make contributions to this plan. More information on the MEDC defined contribution plan can be found in Note 10.

Note 9 Other Postemployment Benefits

State of Michigan Classified Employees

State Employees' Retirement System Other Postemployment Benefits (SERS OPEB)

a. **Plan Description**

The Michigan State Employees' Retirement System (System) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the Governor, which consist of two members of the State Employees' Retirement System at least one of whom is a retirant; one member of the Judges' Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; and one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System health, dental, and vision benefit is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Contact Center at (517) 284-4400 or 1-800-381-5111.

b. Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan.

Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

c. Contributions

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent of payroll value funding principles so the contribution rates do not have to increase over time. For fiscal year 2023, the MEDC's contribution rate was 14.09% of the defined benefit employee wages and 14.09% of the defined contribution employee wages. The MEDC's contribution to the OPEB trust for the fiscal year ending September 30, 2023 was \$1,100,562. Active employees are not required to contribute to SERS OPEB.

d. Actuarial Assumptions

The MEDC's net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75%
Projected Salary Increases	2.75 - 11.75%, including wage inflation at 2.75%
Investment Rate of Return	6.2%
Health Care Cost Trend Rate	Pre-65: 7.50% Year 1 graded to 3.5% Year 15; 3.00% Year 120 Post-65: 6.25% Year 1 graded to 3.5% Year 15; 3.00% Year 120

Mortality rates were based on RP-2014 Male and Female Employee Annuitant Mortality Tables. For active members and disabled retirees, 100% of the table rates were used for males and females and were adjusted for mortality improvements.

The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017.

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

<u>Asset Allocation</u>		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.1 %
International Equity Pools	15.0 %	6.7 %
Private Equity Pools	16.0 %	8.7 %
Real Estate and Infrastructure Pools	10.0 %	5.3 %
Fixed Income Pools	13.0 %	(0.2)%
Absolute Return Pools	9.0 %	2.7 %
Real Return and Opportunistic Pools	10.0 %	5.8 %
Short Term Investment Pools	2.0 %	(0.5)%
Total	100.0 %	

* Long-term rate of returns are net of administrative expenses and 2.2% inflation.

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (3.1)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

e. Discount Rate

A discount rate of 6.2% was used to measure the total OPEB liability. This discount rate was based on the long term expected rate of return on OPEB plan investments of 6.2%. 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 (retiree) rate. Based on these assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

f. Net OPEB Liability

At September 30, 2023, the MEDC reported a liability of \$7,559,847 for its proportionate share of participating employers' net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The MEDC's proportion of the net OPEB liability was based on the MEDC's required OPEB contributions received by SERS during the measurement period October 1, 2021, through September 30, 2022, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2022, the MEDC's proportion was .194%.

The investment return assumption was updated beginning with the September 30, 2016 valuation to reflect reductions in capital market assumptions for the asset classes in which the System invests. The investment return assumption was updated again for the September 30, 2018 valuation in accordance with the Dedicated Gains Policy adopted by the Board of Trustees. The investment return assumption was not changed for the September 30, 2022 valuation.

g. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

As required by GASB Statement No. 74 we have determined the sensitivity of the net OPEB liability to changes in the Single Discount Rate. The following table presents the MEDC's net OPEB liability, calculated using a Single Discount Rate of 6.2%, as well as what the MEDC's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	<u>1% Decrease</u> <u>5.2%</u>	<u>Current Discount</u> <u>6.2%</u>	<u>1% Increase</u> <u>7.2%</u>
Component Unit's proportionate share of the net OPEB liability	\$ 9,598,078	\$ 7,559,847	\$ 5,848,341

h. Sensitivity of the NET OPEB Liability to Healthcare Cost Trend Rates

As required by GASB Statement No. 74, we have determined the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following table presents the MEDC's net OPEB liability, calculated using the assumed trend rates as well as what the MEDC's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare Cost</u> <u>Trend Rate</u>	<u>1% Increase</u>
Component Unit's proportionate share of the net OPEB liability	\$ 5,773,970	\$ 7,559,847	9,614,348

i. OPEB Plan Fiduciary Net Position

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

j. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the MEDC recognized OPEB expense of \$(1,124,063). At September 30, 2023, the MEDC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 5,621,058
Changes of assumptions	2,391,485	278,034
Net difference between projected and actual earnings on investments	183,680	0
Changes in proportion and difference between actual contributions and proportionate share of contributions	2,162,546	1,573,189
Component Unit contributions subsequent to the measurement date	1,032,481	0
	<u>\$ 5,770,192</u>	<u>\$ 7,472,281</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from MEDC's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2024	\$ (1,311,213)
2025	\$ (1,031,679)
2026	\$ (643,595)
2027	\$ 263,195
2028	\$ (11,278)
Thereafter	\$ 0

Postemployment Life Insurance Benefits (PELIB)

a. Plan Description

The State of Michigan provides postemployment life insurance benefits (the Plan) to eligible individuals upon retirement from State employment. Members of the State Employees Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, state-wide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the *State of Michigan Annual Comprehensive Financial Report (SOMACFR)*. The Fund was administratively established to account for employee insurance

benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

b. Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with non-career appointments and those working less than 40% of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage (which amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse and \$1,000 for each dependent under age 23. The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$100,000 and a maximum of \$200,000; or b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

c. Contributions

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2023 was \$.32 for each \$1,000 of coverage. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

d. Actuarial Assumptions

The MEDC's total OPEB liability as of the September 30 2022 measurement date is based on an actuarial valuation performed as of September 30, 2021. The total OPEB liability as of the September 30, 2022 measurement date is based on an actuarial valuation performed as of September 30, 2021 and was rolled forward to September 30, 2022 using generally accepted actuarial principals.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method with these characteristics: a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and b) each annual normal cost is a constant percentage of the members' year by year projected covered pay.

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate	2.75%
Investment Rate of Return (discount rate)	4.40% per year

Mortality: Healthy Life and Disabled Life Mortality (Percentages of the Male and Female rates used in the pension valuations):

	Percent of	
	Male Rates	Female Rates
MSERS	110%	110%

IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees as follows:

MSERS plan members	1.75%
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Spouse Benefits for Current Retirees: Liabilities for current retired members reported with a PELIB benefit for a spouse were calculated based on the information provided in the data files. In cases where spouse birth date was not available, the spouse was assumed to be 3 years younger than the male retiree and 3 years older than the female retiree.

Child Benefits for Future retirees: The following loads were applied to active member liabilities to account for potential PELIB for children of future retirees:

MSERS	1.0%
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Child Benefits for Current Retirees: Liabilities for current retired members of SERS and SPRS reported with a PELIB benefit for a child were based upon the average PELIB liability for the child records reported on the data file for these groups.

Opt-Out Assumption: PELIB participation data was supplied for all current retirees and used without adjustment. Active members reported with life insurance benefits were assumed to have this benefit until separation from State employment.

Face Value of PELIB Policies: The face value of the PELIB policies currently in force were reported to the actuary beginning with the September 30, 2021 valuation of the Program.

e. Discount Rate

A discount rate of 4.40% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2022. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets.

For the prior valuation, dated September 30, 2021, the discount rate used was 2.19%. A decrease in the discount rate used affects the measurement of total OPEB liability for the Postemployment Life Insurance Benefits Plan by increasing its total OPEB liability.

f. Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2023, the MEDC reported a liability of \$1,899,271 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability. The total OPEB liability was determined by an actuarial valuation as of September 30, 2021. The MEDC's proportion of the total OPEB liability was determined by dividing the MEDC's actual contributions to the Plan during the measurement period of October 1, 2021, through September 30, 2022, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2022, the MEDC's proportion was .191%.

g. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

As required by GASB Statement No. 75, the following table presents the MEDC's total OPEB liability, calculated using a Single Discount Rate of 4.40%, as well as what the MEDC's total OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease 3.40%	Current Discount 4.40%	1% Increase 5.40%
Component Unit's proportionate share of the Total OPEB liability	\$ 2,211,626	\$ 1,899,271	\$ 1,650,136

h. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the year ended September 30, 2023, the MEDC recognized OPEB expense of \$(108,586). At September 30, 2023, the MEDC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 204,243
Changes of assumptions	223,174	691,744
Net difference between projected and actual earnings on investments	0	0
Changes in proportion and difference between actual contributions and proportionate share of contributions	413,956	293,922
Component Unit contributions subsequent to the measurement date	68,081	0
	<u>\$ 705,211</u>	<u>\$ 1,189,909</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from the MEDCs contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2023	\$ (184,983)
2024	\$ (79,717)
2025	\$ (100,635)
2026	\$ (74,583)
2027	\$ (112,861)
Thereafter	\$ 0

Michigan Economic Development Corporation Nonclassified Employees

- a. MEDC nonclassified employees are not eligible for any other postemployment benefits.

Note 10 Pension (and Other Employee Benefit) Trust Funds

401(a) Defined Contribution Plan

The Michigan Economic Development Corporation 401(a) Plan ("the Plan") is a defined contribution plan sponsored by the MEDC. The Plan is considered part of the MEDC's reporting entity as a pension (and other employee benefit) trust fund. The MEDC is the administrator of the Plan and has the authority to amend the Plan.

- a. **General**

Effective April 5, 1999, the MEDC Executive Committee established the MEDC Employee Retirement Plan and Trust Agreement, to enable its eligible employees to plan for their retirement. Effective January 1, 2016 the Plan was amended and restated, to include the updated trustees, since the previous restatement in December 2011. As of September 30, 2023, the Plan included 224 participants.

- b. **Eligibility**

To be eligible to participate in the Plan employees must be age 21 and have completed one Year of Service. One year of service is a 12-month period in which the employee works 1,000 hours or more. Eligible entry dates into the Plan is the first January 1, May 1, or September 1 following the date the employee meets the eligibility requirements.

- c. **Contributions**

On August 5, 1999, the MEDC Executive Committee approved an employer contribution rate of 8% of an employee's gross wages to the Plan for eligible employees. During fiscal year 2008, the MEDC Executive Committee approved a 12% contribution rate for employees in senior vice president positions, and 18% for the president and Chief Executive Officer. All contributions are made on a biweekly basis. Employees cannot contribute to this plan. \$1,648,938 was contributed to the 401(a) retirement plan during fiscal year 2023. Of that amount, approximately \$448,811 was funded by MSF and other non-corporate entities, the remainder was contributed by MEDC.

d. Rollover or Transfer Amounts from Other Plans

The Plan will accept participant rollover contributions and/or direct rollovers of distributions on behalf of a participant or employee who is eligible to participate in the Plan regardless of whether he or she has satisfied the age and/or service requirements. The Plan will accept rollovers from:

- A qualified plan described in Code Section 401(a) or 403(a), excluding after-tax employee contributions.
- An annuity contract described in Code Section 403(b), excluding after-tax employee contributions.
- An eligible plan under Code Section 457(b), which is maintained by a state, political subdivision or a state or any agency or instrumentality of a state or political subdivision of a state.
- The Plan will accept a rollover contribution of the portion of a distribution from an individual retirement account or annuity described in Code Section 408(a) or (b) that is eligible to be rolled over and would otherwise be includible in gross income.

e. Participant Account

Each participant's account is credited with the employer contributions and allocation of the Plan's earnings. Allocations are based on the participant's account balance to reflect the effect of income or losses from the particular investments. The benefit to which a participant is entitled is limited to the benefit that can be provided from the participant's account.

f. Vesting

All participants are vested in their employer contributions and related earnings or losses based on years of service over a five-year period. A participant is 100% vested upon attaining five years of service credit. A year of service is defined as a 12-consecutive month period during which an employee has not less than 1,000 hours of service. Vesting occurs in accordance with the following schedule:

<u>Number of Years of Service</u>	<u>Vested Percentage</u>	<u>Forfeited Percentage</u>
1	20%	80%
2	40%	60%
3	60%	40%
4	80%	20%
5	100%	0%

g. Loans to Participants

Participants may borrow from their vested accounts balance of the Plan, unless the participant meets the IRS definition of a Highly Compensated Employee. Loan amounts can range from a minimum of \$1,000 to a maximum of \$50,000 or one-half of the sum of the participants combined vested account balance. Loans must be repaid within five years, with the exception of residential loans, which may be extended up to 15 years. The interest rate on loans is a fixed rate of one (1%) above the prime interest rate as published in the Wall Street Journal Money Rate Section.

h. Loans to Participants - Defaulted

Defaulted loans are loans resulting from the failure of a participant to make the required loan repayments on an outstanding loan. These loans are considered a distribution to the participant for which a federal 1099R tax form is issued. During fiscal year 2023, defaulted loans totaled \$9,722.

i. Payment of Benefits

Participants may withdraw their vested funds upon leaving employment, attains the Plan's normal retirement age of 65, or the 10th anniversary of the Plan year which the participant commenced participation. Withdrawal of participant funds may be lump sum, annual installment payments for a specified number of years, or rollovers to another qualified plan or an IRA. Payments may occur over a period not to exceed life expectancy of the Participant or joint life of the Participant and a designated beneficiary, from the date the payments begin.

j. Forfeited Accounts

Forfeited non-vested accounts totaled \$0 at September 30, 2023. Section 401(a) (2) of the Internal Revenue Code restricts the MEDC from recapturing any contributions made to the Plan. Accordingly, as specified in the Plan Document, these are to be used to reduce future employer contributions. The Plan Administrator may use the forfeitures first to pay administrative expenses of the Plan or to restore previously forfeited amounts to reemployed employees.

k. Tax Status

The U.S. Department of the Treasury made its most recent favorable determination on November 4, 2011, that the Plan constitutes a qualified trust under Section 401(a) of the Internal Revenue Code. Although the Plan may be subsequently amended and restated, management believes that the Plan will continue to operate as a qualified trust.

457 Defined Contribution Plan

The Michigan Economic Development Corporation 457 Plan ("the Plan") is a defined contribution plan sponsored by the MEDC. The Plan is considered part of the MEDC's reporting entity as a pension (and other employee benefit) trust fund. The MEDC is the administrator of the Plan and has the authority to amend the Plan.

a. General

Effective April 5, 1999, the MEDC Executive Committee established the MEDC 457 Plan and Trust Agreement, to enable its eligible employees to plan for their retirement. Effective January 1, 2019 the Plan was amended and restated, to comply with the eligible deferred compensation plan requirements under section 457 of the Internal Revenue Code of 1986, as amended, related regulations and other applicable laws. As of September 30, 2023, the Plan included 202 participants.

b. Eligibility

An employee is eligible to participate in the Plan on the employee's date of hire.

c. Contributions

Only MEDC employees can make contributions to the Plan. The MEDC does not contribute to this plan.

- d. Rollover or Transfer Amounts from Other Plans
The Plan will accept participant rollover contributions and/or direct rollover of eligible rollover distributions from an eligible retirement plan, provided that any direct rollover may not include after-tax employee contributions. No other transfers or rollovers will be accepted by the Plan.
- e. Participant Account
Each participant's account is credited with the employee contributions and allocation of the Plan's earnings. Allocations are based on the participant's account balance to reflect the effect of income or losses from the particular investments. The benefit to which a participant is entitled is limited to the benefit that can be provided from the participant's account.
- f. Vesting
A participant is 100% vested at all times in all amounts allocated to the participant's account.
- g. Payment of Benefits
Participants may withdraw their vested funds upon leaving employment, approval of an unforeseeable emergency withdrawal, or when the participant reaches age 70½. Withdrawal of participant funds may be lump sum, annual installment payments for a specified number of years, or rollovers to another qualified plan or an IRA. Payments may occur over a period not to exceed life expectancy of the Participant or joint life of the Participant and a designated beneficiary, from the date the payments begin.
- h. Tax Status
The Plan is a nonqualified trust.

Note 11 **Blended Component Unit**

Condensed combining information for MEDC's blended component unit for the year ended September 30, 2023, is presented as follows:

Condensed Statement of Net Position
As of September 30, 2023

	MEDC	MLSIC, LLC	Total
ASSETS			
Current assets	\$ 1,048,166,685	\$ 1,882,213	\$ 1,050,048,898
Capital assets	6,361,276		6,361,276
Other noncurrent assets	72,993,604		72,993,604
Total assets	<u>\$ 1,127,521,564</u>	<u>\$ 1,882,213</u>	<u>\$ 1,129,403,778</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,833,970</u>	<u>\$ 0</u>	<u>\$ 7,833,970</u>
LIABILITIES			
Current liabilities	\$ 48,567,315	\$ 85,982	\$ 48,653,297
Long-term liabilities	23,278,197		23,278,197
Total liabilities	<u>\$ 71,845,512</u>	<u>\$ 85,982</u>	<u>\$ 71,931,494</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 8,779,381</u>	<u>\$ 0</u>	<u>\$ 8,779,381</u>
NET POSITION			
Net investment in capital assets	\$ 6,361,276	\$	\$ 6,361,276
Unrestricted	<u>1,048,369,366</u>	<u>1,796,232</u>	<u>1,050,165,597</u>
Total net position	<u>\$ 1,054,730,641</u>	<u>\$ 1,796,232</u>	<u>\$ 1,056,526,873</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2023

	MEDC	MLSIC, LLC	Total
OPERATING REVENUES			
Operating grants and contributions	\$ 1,700,524,793	\$	\$ 1,700,524,793
Payments from the State of Michigan - General Fund	4,042,322		4,042,322
Interest and investment earnings	6,263,541		6,263,541
Other operating revenues	1,337,690	1,052,692	2,390,381
Total operating revenues	<u>\$ 1,712,168,346</u>	<u>\$ 1,052,692</u>	<u>\$ 1,713,221,038</u>
OPERATING EXPENSES			
Operating expenses	\$ 868,746,335	\$ 1,398,638	\$ 870,144,973
Depreciation	2,016,185		2,016,185
Total operating expenses	<u>\$ 870,762,520</u>	<u>\$ 1,398,638</u>	<u>\$ 872,161,158</u>
Operating income (loss)	\$ 841,405,827	\$ (345,946)	\$ 841,059,880
Change in net position	\$ 841,405,827	\$ (345,946)	\$ 841,059,880
Total net position - Beginning Restated	<u>213,324,815</u>	<u>2,142,178</u>	<u>215,466,992</u>
Total net position - Ending	<u><u>\$ 1,054,730,642</u></u>	<u><u>\$ 1,796,232</u></u>	<u><u>\$ 1,056,526,874</u></u>

Condensed Statement of Cash Flows
For the Fiscal Year Ended September 30, 2023

	MEDC	MLSIC, LLC	Total
Net cash provided (used) by operating activities	\$ 841,044,888	\$ (473,404)	\$ 840,571,484
Net cash provided (used) by capital and related financing activities	(1,969,382)	0	(1,969,382)
Net cash provided (used) by investing activities	<u>207,939</u>	<u>0</u>	<u>207,939</u>
Net cash provided (used) - All activities	\$ 839,283,445	\$ (473,404)	\$ 838,810,041
Cash and cash equivalents at beginning of year	<u>190,563,169</u>	<u>2,355,618</u>	<u>192,918,786</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,029,846,614</u></u>	<u><u>\$ 1,882,213</u></u>	<u><u>\$1,031,728,827</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Required Supplementary Information - Pension Liability

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

	MEDC's Proportion of the Net Pension Liability	MEDC's Proportionate Share of the Net Pension Liability	MEDC's Covered Payroll	MEDC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.27%	\$ 13,828,199	\$ 9,857,294	140.28%	68.07%
2016	0.31%	\$ 17,019,838	\$ 6,290,967	270.54%	66.11%
2017	0.20%	\$ 10,740,120	\$ 7,040,121	152.56%	67.48%
2018	0.22%	\$ 11,653,499	\$ 6,982,135	166.90%	69.45%
2019	0.19%	\$ 11,269,422	\$ 5,686,449	198.18%	67.22%
2020	0.19%	\$ 12,630,277	\$ 4,905,744	257.46%	64.71%
2021	0.16%	\$ 10,688,457	\$ 6,675,242	160.12%	64.07%
2022	0.19%	\$ 7,812,117	\$ 6,675,212	117.03%	78.08%
2023	0.20%	\$ 12,708,302	\$ 6,726,394	118.93%	66.92%

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

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

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

	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	MEDC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 2,520,211	\$ 2,520,211	\$ 0	\$ 9,857,294	25.57%
2016	\$ 1,506,501	\$ 1,506,501	\$ 0	\$ 6,290,967	23.95%
2017	\$ 1,643,082	\$ 1,643,082	\$ 0	\$ 7,040,121	23.34%
2018	\$ 1,487,029	\$ 1,487,029	\$ 0	\$ 6,982,135	21.30%
2019	\$ 1,071,032	\$ 1,071,032	\$ 0	\$ 5,686,449	18.83%
2020	\$ 946,290	\$ 946,290	\$ 0	\$ 4,905,744	19.29%
2021	\$ 1,331,023	\$ 1,331,023	\$ 0	\$ 6,675,242	19.94%
2022	\$ 1,339,890	\$ 1,335,173	\$ 4,717	\$ 6,726,394	19.85%
2023	\$ 1,329,275	\$ 1,358,567	\$ (29,292)	\$ 7,178,933	18.92%

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

Notes to Required Supplementary Information - Pension Liability

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

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

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

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

Valuation:

Actuarially determined contribution amounts are calculated as of September 30, 2020.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2023:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	14 years
Asset valuation method	5-year Smoothed Fair value
Inflation	2.25%
Salary increases	2.75% - 11.75%, including wage inflation at 2.75%
Investment rate of return	6.7% net of investment and administrative expenses
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Mortality Tables adjusted for mortality improvements using projection scale MP-2017 from 2006, scaled by: 93% and 98% for male and female healthy retirees; 100% for male and female active members and disabled retirees.

Schedules of Required Supplementary Information - SERS OPEB Liability

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

	MEDC's Proportion of the Net OPEB Liability	MEDC's Proportionate Share of the Net OPEB Liability	MEDC's Covered Payroll	MEDC's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.22%	\$ 18,355,192	\$ 6,982,135	262.89%	19.89%
2019	0.18%	\$ 14,070,513	\$ 5,686,449	247.44%	24.41%
2020	0.19%	\$ 14,792,938	\$ 4,905,744	301.54%	27.88%
2021	0.16%	\$ 9,079,413	\$ 6,675,242	136.02%	38.29%
2022	0.19%	\$ 7,181,102	\$ 6,675,212	106.76%	57.12%
2023	0.19%	\$ 7,559,847	\$ 6,726,394	112.39%	56.64%

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

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

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

	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	MEDC's Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2018	\$ 1,545,515	\$1,545,515	\$ 0	\$6,982,135	22.14%
2019	\$ 1,351,566	\$1,351,566	\$ 0	\$5,686,449	23.77%
2020	\$ 1,053,863	\$1,053,863	\$ 0	\$4,905,744	21.48%
2021	\$ 1,531,660	\$1,531,660	\$ 0	\$6,675,242	22.95%
2022	\$ 1,160,976	\$1,156,861	\$ 4,115	\$6,726,394	17.20%
2023	\$1,010,220	\$1,032,481	\$ (22,261)	\$7,178,933	14.38%

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

Notes to Required Supplementary Information - SERS OPEB Liability

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the 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 OPEB Liability and Schedule of Contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. The Schedule of Contributions is a comparison of the employer's contributions to the actuarially determined contributions.

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

Valuation:

Actuarially determined contribution amounts are calculated as of September 30, 2020.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2023:

Actuarial cost method	Entry-Age
Amortization method	Level-Percent of Payroll, closed
Remaining amortization period	14 Years
Asset valuation method	5 Year Smoothed Market Value
Salary increases	2.75%
Investment rate of return	6.9% Per Year
Health care cost trend rate	
Pre-65 Medical/Prescription Premiums	7.5% Year 1 Graded to 3.5% Year 15; 3.0% year 120
Post-65 Medical/Prescription Premiums	6.25% Year 1 Graded to 3.5% Year 15; 3.0% year 120
Dental/Vision Premiums	3.5% each year; 3.0% year 120
Mortality	RP-2014 Male Employee (pre-retirement) and Female Employee (pre-retirement) Mortality Table scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Schedules of Required Supplementary Information - PELIB OPEB Liability

Schedule of the MEDC's Proportionate Share of Total OPEB Liability Postemployment Life Insurance Benefit Last 10 years*

	MEDC's Proportion of the Total OPEB Liability	MEDC's Proportionate Share of the Total OPEB Liability	MEDC's Covered Employee Payroll	MEDC's Proportionate Share of the Total OPEB Liability as a Percentage of its Covered Employee Payroll
2018	0.22%	\$2,769,663	\$6,894,388	40.17%
2019	0.17%	\$2,084,746	\$5,518,927	37.77%
2020	0.19%	\$2,288,270	\$5,655,237	40.46%
2021	0.16%	\$2,205,264	\$6,094,904	36.18%
2022	0.19%	\$2,596,348	\$6,094,904	42.60%
2023	0.19%	\$1,899,271	\$6,462,444	29.39%

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

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

Notes to Required Supplementary Information - PELIB OPEB Liability

The Plan is not a trust and has no assets.



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