MICHIGAN DEPARTMENT OF
TALENT AND ECONOMIC
DEVELOPMENT

17

FINANCIAL AUDIT REPORT

OF THE MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

FISCAL YEAR ENDING
SEPTEMBER 30, 2017

(A DISCRETELY PRESENTED COMPONENT UNIT OF THE STATE OF MICHIGAN)

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INDEPENDENT AUDITOR'S REPORT

OAG
Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
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Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. Jeff Mason, Chief Executive Officer
and
Mr. Doug Rothwell, Executive Committee Chair
Michigan Economic Development Corporation
300 North Washington Square
Lansing, Michigan

Dear Mr. Mason and Mr. Rothwell:

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information 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, 2017 and the related notes to the financial statements, which collectively comprise MEDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of MEDC as of September 30, 2017 and the respective changes in 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.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the financial statements present only MEDC and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matter
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension liability information and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of 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.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
December 28, 2017

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, 2016 through September 30, 2017. 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 401(a) plan fiduciary net position, and a statement of changes in 401(a) plan 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 401(a) plan fiduciary net position reports the assets and liabilities of the plan and the net position that is held on behalf of participants as of the end of the fiscal year. The statement of changes in 401(a) plan 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 $125.3 million at September 30, 2017 and by $118.8 million at September 30, 2016. As of September 30, 2017, $30.8 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

	2017	2016
Current assets	$ 95,833,608	$ 95,858,113
Noncurrent assets		
Collateral deposit	$ 197,642	$ 227,813
Loans receivable (net)	1,437,503	4,499,629
Economic Development Equity Programs (net)	5,429,735	5,681,214
Investments	46,423,325	39,411,745
Capital assets (net)	6,176,126	6,612,734
Other noncurrent assets	54,555	3,749
Total noncurrent assets	$ 59,718,885	$ 56,436,882
Total assets	$155,552,492	$152,294,995
Deferred outflows of resources	$ 1,885,658	$ 2,346,424
Total assets and deferred outflows of resources	$157,438,150	$154,641,419
Current liabilities	$ 19,658,538	$ 18,126,260
Long-term liabilities	11,413,817	17,755,822
Total liabilities	$ 31,072,355	$ 35,882,082
Deferred inflows of resources	$ 1,064,223	$ 635
Total liabilities and deferred inflows of resources	$ 32,136,578	$ 35,882,717
Net position		
Net investment in capital assets	$ 6,176,126	$ 6,612,734
Unrestricted	119,125,447	112,145,969
Total net position	$125,301,572	$118,758,703

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

Loans receivable (net) includes the long-term portion of the outstanding loans, net of loan loss provisions. Net loans receivable decreased by $3.1 million mainly due to transferring the urban land assembly loans to the Michigan Land Bank Fast Track Authority (LBTFA), a discretely presented component unit of the State of Michigan. An explanation of loan loss provisions and other write-offs is included within the analysis of the statement of revenues, expenses, and changes in net position.

Economic Development Equity Programs (EDEPs) (net) primary purpose is to provide equity funding to outside entities for economic development; not for income or profit. EDEPs decreased overall by $251,479.

Investments includes cash investments used to fund the operations of the MEDC. Non-current investments increased by $7.0 million in fiscal year 2017.

Capital assets (net) at September 30, 2017 included the cost of the MEDC headquarters building, furniture, trademark, and information technology equipment, net of depreciation.

Current liabilities at September 30, 2017, which primarily consist of accounts payable at year-end, including payroll obligations and compensated absences, increased by $1.5 million.

Long-term liabilities represent $673,697 in long term compensated absences liabilities and $10.7 million in net pension liabilities. The decrease of $6.3 million in long-term liabilities is due to the net pension liability. Additional information on the net pension liability is included in the notes to the financial statements.

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

Overall, **net position** increased by $6.5 million during fiscal year 2017 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

	2017	2016
Operating revenues		
Operating grants and contributions	$ 97,985,228	$ 91,953,996
Payments from State of Michigan	5,000,000	5,000,000
Interest and investment earnings	3,185,008	2,592,745
Other operating revenues	4,576,671	3,994,267
Total operating revenues	$110,746,907	$103,541,008
Operating expenses		
Salaries, wages, and other administrative expenses	$ 35,550,006	$ 38,318,516
Operating grants	49,329,466	42,952,070
Other operating expenses	16,324,594	5,659,492
Total operating expenses	$101,204,065	$ 86,930,078
Operating income (loss)	$ 9,542,843	$ 16,610,930
Change in net position	$ 9,542,843	$ 16,610,930
Total net position - Beginning Restated	115,758,730	102,147,773
Total net position - Ending	$125,301,572	$118,758,703

Operating grants and contributions included $41.4 million received from State appropriated funding for the economic development programs and $55.4 million in tribal gaming revenue and miscellaneous fees transferred from MSF. The revenue from State appropriated programs funding increased by $5.7 million in fiscal year 2017.

Payments from State of Michigan is $5 million from TIA Skilled Trades Training Program funds for the matching of federal funds per Public Act 268 of 2016, Section 1066(e).

Interest and investment earnings includes earnings and fair market valuation adjustments on MEDC's cash investments. Interest and investment earnings increased by $592,263 due to an increase in fair market valuation adjustments by $1.2 million while earnings on cash investments decreased by $.5 million.

Other operating revenues primarily consist of $2.3 million in tribal gaming revenue from the Keweenaw Bay Indian Community and $1.2 million in lease revenues from the Michigan Life Science and Innovation Center (MLSIC), a building managed by MEDC on behalf of the LBFTA. All MLSIC building related expenditures are included in other administrative expenses.

Operating grants for fiscal year 2017 included disbursements of matching funds for federal competitive grants as well as for Business and Community Development Programs, Local Partnership Outreach Programs, Export Program, Community Ventures Program, special grants for identified industries or receipts, marketing, and other program expenses. Operating grants increased by $6.4 million in fiscal year 2017.

Other operating expenses primarily consist of write-offs of uncollectible receivables, bad debt expense related to EDEP and loan loss provisions, and payments to component units. The net increase in other operating expenses of $10.7 million is primarily due to a $15 million loss provision on a forgivable loan. Additional information on this loan loss provision is included in the notes to the financial statements. This increase is partially offset by a decrease of $4.2 million due to a fiscal year 2016 payment to LBFTA to transfer the urban land assembly loan fund per Public Act 116 of 2016. This was a one-time expense.

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

	2017	2016
Cash provided (used) by:		
Operating activities	$ 1,929,559	$ 1,094,383
Capital and related financing activities		
Investing activities	(470,346)	3,189,525
Net increase (decrease) in cash	$ 1,459,214	$ 4,283,908
Cash and cash equivalents at beginning of year	$ 59,054,651	$ 54,770,742
Cash and cash equivalents at end of year	$ 60,513,864	$ 59,054,651

Cash and cash equivalents at end of fiscal year 2017 of $60.5 million included $27.6 million in checking and money market accounts in Bank of America and $30.8 million equity in the State of Michigan common cash.

Condensed Financial Information
From the Statement of Changes in 401(a) Plan Fiduciary Net Position
For the Fiscal Years Ended September 30

	2017	2016
Additions to net position	$ 1,942,816	$ 1,611,032
Deductions to net position	868,414	1,336,224
Net increase (decrease) in net position	$ 1,074,402	$ 274,808
Plan fiduciary net position at beginning of year	$ 6,086,176	$ 5,811,368
Plan fiduciary net position at end of year	$ 7,160,577	$ 6,086,176

Additions to net position primarily consists of interest and dividends on investments, net increase (decrease) in fair value of investments, and employer contributions. Additions increased by $331,784 mainly due to an increase in the fair value of the plan's 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 decreased by $467,811 mainly due to a decrease in benefits paid to participants.

Additional information on the 401(a) Plan is included in the notes to the financial statements.

BASIC FINANCIAL STATEMENTS

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Net Position
As of September 30, 2017

ASSETS		
Current assets:		
Cash (Note 3)	$	27,645,857
Equity in common cash (Note 3)		30,763,770
Money market fund and commerical paper (note 2)		2,104,237
Tribal gaming receivable		1,449,160
Amounts due from component units		31,876,803
Amount due from primary government		134,183
Loans receivable (net) (Note 5)		77,564
Investments (Note 3)		1,180,483
Other current assets		601,550
Total current assets	$	95,833,608
Noncurrent assets:		
Collateral deposit	$	197,642
Loans receivable (net) (Note 5)		1,437,503
Economic Development Equity Programs		5,429,735
Investments (Note 3)		46,423,325
Capital assets (net) (Note 6)		6,176,126
Other noncurrent assets		54,555
Total noncurrent assets	$	59,718,885
Total assets	$	155,552,492
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	$	1,885,658
Total deferred outflows of resources	$	1,885,658
Total assets and deferred outflows of resources	$	157,438,150
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities	$	18,006,161
Compensated absences (Note 7)		1,401,634
Amounts due to primary government		238,747
Amounts due to component units		11,996
Total current liabilities	$	19,658,538
Long-term liabilities:		
Compensated absences (Note 7)	$	673,697
Net pension liability	$	10,740,120
Total long-term liabilities	$	11,413,817
Total liabilities	$	31,072,355
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	$	1,064,223
Total inflows of resources	$	1,064,223
Total liabilities and deferred inflows of resources	$	32,136,578
NET POSITION		
Net investment in capital assets	$	6,176,126
Unrestricted		119,125,447
Total net position	$	125,301,572

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, 2017

OPERATING REVENUES (Note 1)		
Operating grants and contributions		
Payments from MSF - State appropriated programs	$	41,397,958
Payments from MSF - Tribal gaming and fees		55,473,849
Other operating grants and contributions		1,113,421
Total operating grants and contributions	$	97,985,228
Payments from the State of Michigan - General Fund	$	5,000,000
Interest and investment earnings		
Investment earnings	$	988,972
Net increase (decrease) in fair value of investments		2,068,217
Interest income on loans		127,819
Total interest and investment earnings	$	3,185,008
Other operating revenues		
Tribal gaming	$	2,585,993
Other operating revenues		1,990,679
Total other operating revenues	$	4,576,671
Total operating revenues	$	110,746,907
OPERATING EXPENSES (Note 1)		
Salaries, wages, and other administrative expenses	$	35,550,006
Operating grants		49,329,466
Other operating expenses		16,324,594
Total operating expenses	$	101,204,065
Operating income (loss)	$	9,542,842
Change in net position	$	9,542,842
Total net position - Beginning Restated		115,758,730
Total net position - Ending	$	125,301,572

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to employees	$	(23,074,503)
Payments to suppliers		(19,500,575)
Tribal gaming revenue		2,261,721
Other operating revenue		2,087,669
Grants received from federal government		750,177
Operating grants, loans, and EDEPs		(56,159,244)
Payment to primary government		(400,000)
Payment to component unit		(4,358,311)
Payments from primary government		5,000,000
Payments from component unit		95,322,626
Net cash provided (used) by operating activities	$	1,929,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	$	
Net cash provided (used) by capital and related financing activities	$	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases, sales, and maturities of investment securities (net)	$	(1,565,823)
Interest and dividends on investments		1,095,477
Net cash provided (used) by investing activities	$	(470,346)
Net cash provided (used) - All activities	$	1,459,214
Cash and cash equivalents at beginning of year		59,054,651
Cash and cash equivalents at end of year	$	60,513,864
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Per statement of net assets classifications:		
Cash	$	27,645,857
Equity in common cash		30,763,770
Money market fund and commercial paper		2,104,237
Cash and cash equivalents at end of year	$	60,513,864
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$	9,542,842
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest (nonprogram) and investment income		(1,095,477)
Depreciation		436,608
Pension expense		(3,168,505)
Deferred outflows - Contributions subsequent to measurement date		(1,586,859)
Prior period adjustment		(2,999,973)
Net increase (decrease) in fair value of investments		(2,068,217)
Changes in assets and liabilities:		
Amounts due from MSF and tribal gaming revenue receivable		(2,283,952)
Loans receivable (program loans)		3,278,518
Economic Development Equity Programs		251,479
Collateral deposit		30,171
Other assets		122,933
Accounts payable and other liabilities		1,469,992
Net cash provided (used) by operating activities	$	1,929,559
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Loans converted to equity	$	
Increase/(decrease) in fair value of investments		2,178,073
Net noncash provided (used) by investing, capital, and financing activities	$	2,178,073

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of 401(a) Plan Fiduciary Net Position
As of September 30, 2017

ASSETS		
Cash	$	1,569
Money market funds		155,418
Participant-directed investments at fair value:		
Mutual funds		2,507,801
Pooled investment funds		4,365,546
Participant loans		131,813
Total assets	$	7,162,146
LIABILITIES		
Accounts payable and other liabilities	$	1,569
Total liabilities	$	1,569
PLAN FIDUCIARY NET POSITION	$	7,160,577

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

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
Statement of Changes in 401(a) Plan Fiduciary Net Position
As of September 30, 2017

ADDITIONS TO NET POSITION		
Investment income (loss):		
Interest and dividends	$	80,511
Net increase (decrease) in fair value of investments		834,322
Total investment income (loss)	$	914,833
Contributions:		
Employer	$	946,991
Total contributions	$	946,991
Miscellaneous income	$	80,992
Total additions	$	1,942,816
DEDUCTIONS TO NET POSITION		
Benefits paid to participants	$	566,049
Administrative and investment expenses		34,946
Other deductions		267,419
Total deductions	$	868,414
NET INCREASE (DECREASE) IN NET POSITION	$	1,074,402
PLAN FIDUCIARY NET POSITION		
Beginning of fiscal year	$	6,086,176
End of fiscal year	$	7,160,577

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

Notes to the Financial Statements

Note 1 **<u>Significant Accounting Policies</u>**

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 2014, this interlocal agreement was automatically renewed for another five years. MEDC is a separate legal entity created to promote economic growth by developing strategies and providing services to create and retain good jobs and a high quality of life for Michigan residents. Under the terms of the agreement, the governance of MEDC resides in an Executive Committee of 20 members appointed to eight-year, staggered terms by the Governor.

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 Comprehensive Annual Financial Report.

Executive Order No. 2014-12, effective March 2015, created the Department of Talent and Economic Development (DTED) and transferred MSF from the Department of Treasury. DTED as a single entity focuses on growing Michigan jobs and economy. MEDC functions within DTED's organizational structure.

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 fund and fiduciary fund, even though the fiduciary fund is 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.

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

c. Measurement Focus and Basis of Accounting

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

d. Financial Data

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, furniture, 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 compensated absences 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) and net pension liability.

(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. 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.

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, tribal gaming revenue, and investment earnings. Also included in operating revenues are tribal gaming and fees collected by MSF and transferred to MEDC for PAB issuance, the Michigan Economic Growth Authority, and Brownfield programs during the fiscal year.

(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. <u>401(a) Plan Fiduciary funds</u>
Additions to net position include interest, dividends and net increase (decrease) in fair value of investments. 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) 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 **<u>Accounting Changes and Restatements</u>**

During fiscal year 2017, the MEDC decreased its beginning net position by $2,999,973 to reflect the transfer of the Urban Land Assembly Fund loan balances from the MEDC to the Land Bank Fast Track Authority (LBFTA). Public Act 116 of 2016 transferred all money in the Urban Land Assembly Loan Fund to the Land Bank Fast Track Fund, with the transfer of the loans occurring in fiscal year 2017.

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

<u>MEDC Deposits and Investments</u>

a. <u>Deposits</u>

Deposits held by MEDC at September 30, 2017, were as follows:

Equity in common cash	$30,763,770
Checking account	5,133,951
Money market accounts	22,709,548
Total deposits	$58,607,269

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

Deposits included in MEDC's bank accounts (without recognition of outstanding checks or deposits in transit) were $27,897,352 at September 30, 2017. Of that amount, none was uncollateralized and uninsured. There were deposits of $27,397,387 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, 2017, 99.85% of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *State of Michigan Comprehensive Annual Financial Report* (*SOMCAFR*).

b. <u>Investments</u>

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

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

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

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

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

(5) Corporate notes and bonds.

(6) Taxable bond funds.

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

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

(9) Treasury Inflation Protected Securities (TIPS).

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

MEDC investments in the money market fund, 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, 2017, by investment type and in total:

Investment Type	Fair Value
Money market fund & commercial paper	$ 2,104,237
Corporate securities	30,078,630
Equities	38,429
Mutual funds (ETFs)	17,486,749
Total investments	$49,708,045

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, 2017, the average maturities of investments exposed to interest rate risk were as follows:

		Investment Maturities	
Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years
Money market fund/commercial paper	$ 2,104,237	$2,104,237	
Corporate securities	$30,078,630	$1,180,483	$28,898,147

(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, 2017, 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 2017. 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, 2017:

		Credit Quality Rating	
Investment Type	Fair Value	Standard & Poor's	Moody's Investors Services
Corporate securities	$ 310,121	AA+	Aa1
	20,677,425	AA+	Aaa
	155,639	AAA	Aaa
	190,443	AAA	Aa1
	1,076,960	AA-	A1
	325,101	AA-	Aa2
	625,603	AA-	Aa3
	1,317,019	A+	A1
	389,804	A+	A2
	735,786	A	A2
	301,596	A	A3
	655,151	A-	A2
	776,609	A-	A3
	628,107	BBB+	Baa1
	302,427	BBB	Baa2
	1,360,643	BBB+	A3
	250,198	NR	A3
Mutual funds	17,486,749	Unrated	Unrated
Money market funds	166,067	Unrated	Unrated
Commercial paper	1,938,170	Unrated	Unrated
Total Investments	$49,669,617		

(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, 2017, MEDC did not have any investments in foreign securities.

(5) Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MEDC's investments with a single issuer. MEDC's investment policy limits investments in securities in a single issuer, other than those issued by the U.S. government or its agencies and in money market mutual funds to a maximum of 5% of its total portfolio. MEDC did not have any investments for more than 5% of MEDC's total investments at September 30, 2017.

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, 2017:

		Fair Market Measurements Using		
Investments by Fair Value Level	Balance at September 30, 2017	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	$ 30,078,630	$ 30,078,630	$	$
Total debt securities	$ 30,078,630	$ 30,078,630	$ 0	$ 0
Equity Securities				
Equity	$ 38,429	$ 38,429	$	$
Mutual bonds/Equity Funds	17,486,749	17,486,749		
Total Equity Securities	$ 17,525,178	$ 17,525,178	$ 0	$ 0
Total Investments by Fair Value Level	$ 47,603,808	$ 47,603,808	$ 0	$ 0

401(a) Plan Fiduciary Fund

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:

a. 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 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 and remainder of the assets to fixed income securities. Alerus Conservative Income Direct Collective Investment Trust allocates 60-75% of its assets to fixed income securities and remainder to equity securities.

b. Tier II

Fidelity Money Market fund invests in U.S. dollar-denominated money market securities of domestic and foreign issuers and repurchase agreements. Fidelity invests more than 25% of total assets in the financial services industries. The remaining are mutual funds. T Rowe Price New American Growth 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. Royce Opportunity Fund seeks long-term growth in capital and invests at 65% of its net assets in equity securities. Dodge and Cox International Fund seeks long-term growth of principal and income. The fund typically invests in medium-to-large well-established companies based on standards of the applicable market. American Beacon Large Cap Value investment fund seeks long-term capital appreciation and current income. Typically invests 80% of the fund's net assets in equity securities of large market capitalizations in U.S. companies. 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.

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. Columbia Acorn International seeks long-term capital appreciation and invests at least 75% of its net assets in foreign companies in developed and emerging markets. Franklin Convertible Securities fund invests at least 80% of its net assets in convertible securities. American Funds American High-Inc. fund invests primarily in higher yielding and generally lower quality debt securities, including corporate loan obligations. Loomis Sayles Global fund invests at least 80% of its net assets in investment-grade fixed-income securities worldwide. Fidelity Balance seek income and capital growth consistent with reasonable growth. 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. Lastly, Vanguard Selected Value Fund invests mainly in stocks of mid-size U.S. companies, choosing stocks considered undervalued.

Investment Risk: The Plan's investments are subject to several types of risk. As of September 30, 2017, 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 does not restrict investment maturities.

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
401(a) Plan Fiduciary Fund - Interest Rate Risk
As of September 30, 2017

Fund	Investment Type	Fair Value	Weighted Average Maturity (Year)
Dodge & Cox Income Fund	Mutual Funds - Bonds	$ 172,165	*
American Funds High Income Trust R6	Mutual Funds - Bonds	$ 61,340	4.0
Fidelity Balanced Fund	Mutual Funds - Balanced	$ 79,701	*
Franklin Convertible Securities Adv	Mutual Funds - Bonds	$ 53,327	**
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	$ 64,881	7.88
Alerus Consv Income Fund Direct Shares	Collective Funds - Fixed Income	$ 59,927	6.98
Alerus Moderate Income Fund Direct Shares	Collective Funds - Fixed Income	$ 29,875	7.54
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	$ 683,353	7.92
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	$1,654,675	7.84

* 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, 2017 the credit quality ratings of debt securities subject to credit risk (other than U.S. government securities) are shown below:

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
401(a) Plan Fiduciary Fund - Credit Risk
As of September 30, 2017

Fund	Investment Type	Fair Value	Duration (Years)	Rating	Organization
Fidelity U.S. Money Market Taxable	Cash Equivalents	$ 155,418	N/A	N/A	N/A
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	$ 64,881	6.38	B to AAA	Highest credit rating among Moody's/S&P/Fitch
Dodge & Cox Income Fund	Mutual Funds - Bonds	$ 172,165	4.2	Caa to Aaa	Middle rating from Moody's/S&P/Fitch
American Funds High Income Trust R6	Mutual Funds - Bonds	$ 61,340	3.3	Below CCC to BBB/Baa	Moody's /S&P/Fitch
Franklin Convertible Securities Adv	Mutual Funds - Bonds	$ 53,327	N/A	NR 65.26%/B to AA 30.74%	Middle rating from Moody's/S&P/Fitch
Fidelity Balanced Fund	Mutual Funds - Balanced	$ 79,701	5.12	CCC & Below to AAA/ U.S. Government 57.68%	Moody's /S&P/Fitch
Alerus Consv Income Fund Direct Shares	Collective Funds - Fixed Income	$ 59,927	5.03	*	Moody's /S&P/Fitch
Alerus Moderate Income Fund Direct Shares	Collective Funds - Fixed Income	$ 29,875	5.39	*	Moody's /S&P/Fitch
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	$ 683,353	5.64	*	Moody's /S&P/Fitch
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	$1,654,675	5.58	*	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 of the portfolio. As of September 30, 2017 the investments (other than U.S. government securities) shown below were subject to foreign currency risk:

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION
401(a) Plan Fiduciary Fund - Foreign Currency Risk
As of September 30, 2017

Fund	Investment Type	Foreign Currency	Fair Value
Loomis Sayles Bond Inst Global Bond Instl	Mutual Funds - Bonds	Various	$ 64,881
Dimensional Emerging Markets	Mutual Funds - International Equity	Various	$ 96,241
Columbia Acorn International Z	Mutual Funds - International Equity	Various	$ 66,426
First Eagle Global Fund	Mutual Funds - Balanced	Various	$ 45,847
Dodge & Cox International	Mutual Funds - International Equity	Various	$ 170,178
Alerus Aggressive Growth Fund Direct Shares	Collective Funds - Equity	Various	$1,937,717
Alerus Moderate Growth Fund Direct Shares	Collective Funds - Equity	Various	$1,654,675
Alerus Conservative Growth Fund Direct Shares	Collective Funds - Equity	Various	$ 683,353
Janus Enterprise FD CL T (1050)	Mutual Funds - Domestic Equity	Various	$ 155,698
American Funds High Income Trust R6	Mutual Funds - Bonds	Various	$ 61,340

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, 2017 shown below:

Investments by Fair Value Level	Balance at September 30, 2017	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)
Money Market Fund	$	$	$	$
Mutual Funds	155,418	155,418		
Pooled Investment Funds	2,507,801	2,507,801		
Mutual bonds/Equity Funds	4,365,546	4,365,546		
Total Investments by Fair Value Level	$ 7,028,765	$ 7,028,765	$ 0	$ 0

Note 4 **Nonexchange Financial Guarantee**

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

Under the terms of the contract between MEDC and the lender, MEDC has guaranteed 100% of the loan amount for the length of the 10-year borrowing period. On a quarterly basis, MEDC reconciles its collateral deposit balance with the lender and collects any monies that are contractually owed back to MEDC. Based on information obtained by MEDC from the lender regarding the likelihood of default, MEDC did not recognize any liability for this deposit. MEDC has separate subordinated guarantee agreements with each of the borrower's owners, which provides MEDC with the right to recover its funds in the event of default. As of September 30, 2017, collateral deposits were $249,965 which include outstanding guarantees of $242,658.

Note 5 **Loans Receivable**

Loans receivable held by MEDC as of September 30, 2017 consisted of the following:

Loan Category	Loans Receivable
Michigan Core Community Fund Program	$ 5,402,439
Follow-On Fund	1,249,828
Other Loans	265,239
Total	$ 6,917,506
Less: Allowance for uncollectible loans	(5,402,439)
Total Loans Receivable	$ 1,515,067

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

In fiscal year 2017, MEDC issued a $15 million forgivable loan. The forgivable loan agreement contains language that allows the loan to be forgiven when certain milestones are met. The MEDC believes the milestones will be met and the loan will be forgiven; therefore, it is not included in the loan receivable amounts reported on the financial statements.

Note 6 **Capital Assets**

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

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

Capital asset activities for the fiscal year ended September 30, 2017 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
Furniture	2,997,422			2,997,422
Non-information technology equipment	78,265			78,265
Information technology equipment	1,429,517			1,429,517
Capital assets (cost)	$ 17,592,174	$ 0	$ 0	$ 17,592,174
Less accumulated depreciation for:				
Building and improvement	$ (6,574,237)	$(436,608)	$	$ (7,010,844)
Furniture	(2,997,422)			(2,997,422)
Non-information technology equipment	(78,265)			(78,265)
Information technology equipment	(1,429,517)			(1,429,517)
Total accumulated depreciation	$(11,079,440)	$(436,608)	$ 0	$(11,516,048)
Capital assets (net)	$ 6,612,734	$(436,608)	$ 0	$ 6,176,126

Note 7 **Long-Term Liabilities**

Long-term liabilities are accrued when incurred. The following table summarizes compensated absences and net pension liabilities of MEDC for the fiscal year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 1,615,200	$1,068,306	$ 608,175	$ 2,075,331	$1,401,634
Net Pension Liability	$17,019,838	$ 0	$6,279,718	$10,740,120	$ 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, 2017.

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.

Note 8 Pension Plans and Other Postemployment Benefits

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

b. Benefits Provided

(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) <u>Pension Reform of 2012</u>

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

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

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2017, the component unit's contribution rate was 25.5% of the defined benefit employee wages and 22.2% of the defined contribution employee wages. The MEDC's contribution to SERS for the fiscal year ending September 30, 2017 was $1,643,082.

d. Actuarial Assumptions

The MEDC's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Allocation

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
International Equity Pools	16.0%	7.2%
Private Equity Pools	18.0%	9.2%
Real Estate and Infrastructure Pools	10.0%	4.3%
Fixed Income Pools	10.5%	0.9%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
Total	100.0%	

* Long-term Rate of Returns are net of administrative expenses and 2.1% inflation.

e. Discount Rate

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

f. Net Pension Liability

At September 30, 2017, the MEDC reported a liability of $10,740,120 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled-forward using generally accepted actuarial procedures. The 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, 2015, through September 30, 2016, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2016, the MEDC's proportion was .203%, a .10% decrease from September 30, 2015.

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

g. Pension Liability Sensitivity

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

	1% Decrease 7%	Current Discount 8%	1% Increase 9%
Component Unit's proportionate share of the net pension liability	$ 13,790,078	$ 10,740,120	$ 8,107,938

h. Pension Plan Fiduciary Net Position

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

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, 2017, the MEDC recognized pension expense of ($3,168,505). At September 30, 2017, 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	$ 1,284	$
Changes of assumptions		
Net difference between projected and actual earnings on investments	241,292	
Changes in proportion and difference between actual contributions and proportionate share of contributions		1,064,223
Component Unit contributions subsequent to the measurement date	1,643,082	
	$1,885,658	$1,064,223

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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2018	$ (1,092,187)
2019	$ (29,248)
2020	$ 277,071
2021	$ 22,717

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 $284,388 in fiscal year 2017. 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.

l. Other Postemployment Benefits

Along with the defined contribution required amounts MEDC also contributed 43.29% of payroll toward other postemployment benefits for most State employees in FY17. The MEDC participates in the State of Michigan's postemployment benefits, which is part of the State Employees' Retirement System and accounted for in a separate OPEB trust fund within its financial statements. State statutes provide retired employees with the other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Retired employees are responsible for the balance of the costs. Employees hired on or after January 1, 2012, will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old. 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 for 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.

b. Other Postemployment Benefits

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

401(a) Plan Fiduciary Fund

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, 2017, the Plan included 184 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. MEDC made $959,116 in contributions to the 401(a) retirement plan during fiscal year 2017 and was reimbursed approximately $175,000 of this amount from MSF and other non-corporate entities.

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:

Number of Years of Service	Vested Percentage	Forfeited Percentage
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. There were no defaulted loans during fiscal year 2017.

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 $43,586 at September 30, 2017. 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 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.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Required Supplementary Information - Pension Liability

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

	2015	2016	2017
MEDC'S Proportion of the Net Pension Liability	.269 %	.309%	.203%
MEDC'S Proportionate Share of the Net Pension Liability	$13,828,199	$17,019,838	$10,740,120
MEDC'S Covered Payroll	$ 9,857,294	$ 6,290,967	$ 7,040,121
MEDC'S proportionate share of the net pension liability as a percentage of its covered payroll	140.28%	270.54%	152.56%
Plan fiduciary net position as a percentage of the total pension liability	68.07%	66.11%	67.48%

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

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

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

	2015	2016	2017
Statutorily Required Contribution	$2,520,211	$1,506,501	$1,643,082
Contributions in relation to the statutorily required contribution	$2,520,211	$1,506,501	$1,643,082
Contribution deficiency (excess)	$ 0	$ 0	$ 0
MEDC's covered payroll	$9,857,294	$6,290,967	$7,040,121
Contributions as a percentage of covered payroll	25.57 %	23.95%	23.34%

* 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, 2015.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2017:

Actuarial Cost Method	Entry age, normal
Amortization Method	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed Fair Value
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment Rate of Return	8% net of investment and administrative expenses
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Health Life Mortality Tables, adjusted for mortality improvements to 2015 projection scale BB. For retirees, 100% of the table rates were used. For active members, 50% of the table rates were used for males and females.

MEDC

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