



MICHIGAN STRATEGIC FUND

Department of Talent and Economic Development

ANNUAL FINANCIAL REPORT OF THE MICHIGAN STRATEGIC FUND

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

Fiscal Year Ending September 30, 2015

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INDEPENDENT AUDITOR'S REPORT



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Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • www.audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. Steven Arwood
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Mr. Arwood:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Michigan Strategic Fund, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the Michigan Strategic Fund'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 governmental activities and each major fund of the Michigan Strategic Fund as of September 30, 2015 and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.



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Doug A. Ringler, CPA, CIA
Auditor General

Mr. Steven Arwood
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
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Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Michigan Strategic Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, beginning fund balance was restated to correct prior period errors. As also discussed in Note 2 to the financial statements, the Michigan Strategic Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the fiscal year ended September 30, 2015. Our opinion is not modified with respect to these matters.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

Sincerely,

A handwritten signature in black ink that reads 'Doug Ringler'. The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
March 3, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Strategic Fund (MSF) management has prepared this discussion and analysis of the financial performance of MSF for the period October 1, 2014, through September 30, 2015. The MSF is a discretely presented component unit of the financial reporting entity of the State of Michigan. MSF's management is responsible for the basic financial statements, required supplementary information, 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 accounting standards require a statement of net position; a statement of activities; a fund balance sheet; and a statement of revenues, expenditures, and changes in fund balance. The financial statements are interrelated and represent the financial status of the MSF.

This financial report includes the independent auditor's report, management's discussion and analysis, the basic financial statements, and required supplementary information.

Major Changes

The 2015 appropriation for the MSF included \$4.6 million to support a grant program and debt service for the new Community College Skilled Trades Equipment Program. In addition, \$15.8 million in special grants funding was appropriated provide funding to industries and recipients of targeted economic development support.

Other major changes in the financial statements from 2014 include the recognition of net pension liabilities totaling over \$24.8 million related to new GASB reporting requirements and a significant increase in bond obligations, proceeds and premiums related to bond offerings identified in the statement and explanatory notes.

Analysis of Financial Activities

The assets of the MSF exceeded its liabilities by \$508.2 million at September 30, 2015, and by \$511.5 million at September 30, 2014. Total net position decreased by \$3.3 million during fiscal year 2015.

Condensed Financial Information Statement of Net Position As of September 30

	<u>2015</u>	<u>2014</u>
Cash and equity in common cash	\$ 461,820,669	\$ 329,294,734
Amounts due from federal government	39,113,959	28,498,857
Other current assets	49,548,770	58,311,046
Total current assets	<u>\$ 550,483,398</u>	<u>\$ 416,104,636</u>
Noncurrent assets	488,664,111	407,339,591
Total assets	<u>\$ 1,039,147,509</u>	<u>\$ 823,444,228</u>
Deferred outflows of resources	\$ 3,930,493	\$ -
Total assets and deferred outflows of resources	<u>\$ 1,043,078,002</u>	<u>\$ 823,444,228</u>
Current liabilities	\$ 118,544,369	\$ 116,140,248
Long-term liabilities	413,457,337	195,852,989
Total liabilities	<u>\$ 532,001,706</u>	<u>\$ 311,993,237</u>
Deferred inflows of resources	\$ 2,912,986	\$ -
Total liabilities and deferred inflows of resources	<u>\$ 534,914,692</u>	<u>\$ 311,993,237</u>
Net position:		
Restricted	\$ 661,281,115	\$ 476,133,187
Unrestricted	(153,117,805)	35,317,803
Total net position	<u>\$ 508,163,310</u>	<u>\$ 511,450,991</u>

Cash and equity in common cash increased by \$132.5 million largely as the result of \$106.1 million of cash held by trustee in bond proceeds and premiums. This includes associated proceeds with three bond offerings for the Community Colleges Skilled Trades Equipment Program, the Michigan Senate Offices Project, and the Facility for Rare Isotope Beams Project that were not previously recognized. Further analysis of bond obligations is included in the accompanying notes to these financial statements.

Additionally, there was a \$34.5 million increase as a result of unspent appropriated amounts transferred from the General Fund for the Film Digital Media Production Assistance Program.

Amounts due from federal government primarily consist of receivables for federal pass-through funds for the Community Development Block Grants (CDBGs), Workforce Development Agency grants, and Michigan Energy Office grants to subrecipients. This line item increased by a net amount of \$10.6 million during fiscal year 2015. These receivables vary from year to year as they are dependent on the project activity of the subrecipients.

Other current assets primarily consist of loans receivable, capital lease receivable, amounts due from local units, the tribal gaming revenue receivables, and participation loans. This line item decreased by a net amount of \$8.8 million during fiscal year 2015, due to a decline in tribal gaming revenue receivables and a decline in loans receivable.

Noncurrent assets include the Capital Access Program, capital lease receivable, loans receivable, interest receivable, investments, Michigan Energy Office Loan Loss Reserve, collateral deposits, and participation loans. The net increase in noncurrent assets during fiscal year 2015 was \$81.3 million. Capital lease receivable increase by \$31.4 million due to the acquisition of a condominium unit as part of the Michigan Senate Offices Project. Investments increased by \$31.6 million largely due to the conversion of loans to investments, fair market value adjustments, and issuance of new investments. Included with this increase is an increase in the fair market valuation of the MSF investment in ProNAi Therapeutics. It increased by over \$12.6 million in fiscal year 2015 based on its initial public offering and valuation as of September 30, 2015. Noncurrent collateral funding decreased by \$4.4 million due to decreasing loan balances and MSF receiving the return of the collateral associated with the loans. Noncurrent participation loan funding increased by \$17 million largely due to Michigan Community Revitalization Program and Michigan Supplier Diversification Program participation loans funded through the Jobs for Michigan Investment Fund. The total amount of investments and loans receivable (net of loss provisions) included in the current and noncurrent assets categories is \$192.1 million. An explanation of loan loss provisions and other write-offs is included within the analysis of the statement of activities.

Current liabilities primarily consist of accounts payable and other liabilities, amounts due to component units, and bond interest payable related to the limited obligation revenue bonds. This line item decreased by a net amount of \$2.4 million during fiscal year 2015.

Long-term liabilities primarily consist of bonds payable for buildings MSF has acquired since 2008 and the reserves for the Capital Access Program. These liabilities increased by over \$217.6 million during fiscal year 2015 due in large part to the recognition of bond obligations for the Facility for Rare Isotope Beams Project, the Community Colleges Skilled Trade Equipment Program, and the Michigan Senate Office Project. Bonds payable increased by over \$192.4 million. In addition, \$24.8 million is recognized as a net pension liability due to the implementation of a new GASB statement. Additional information is included in the notes to the financial statements.

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

Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation limiting how they can be used. Total restricted net position increased by \$185.1 million due to an increase of \$97.3 million in cash held by trustee in bond proceeds and premiums for non-debt service activities, an increase of \$34.5 million as a result of unspent appropriated amounts transferred from the General Fund for the Film Digital Media Production Assistance Program, and an increase in the Jobs for Michigan Investment Fund of \$56 million mainly due to increases of \$17.7 million in participation loans and \$31.6 million in investments.

Unrestricted net position represents resources that are not included in restricted net position. Total unrestricted net position decreased by \$188.4 million primarily related to the net pension liability of \$24.8 million and related to an increase in bonds payable of \$199.5 million mainly due to the three new bond issuances for the Facility for Rare Isotope Beams Project, the Community Colleges Skilled Trade Equipment Program, and the Michigan Senate Office Project. These decreases were partially offset by an increase of \$32.3 million in capital lease receivable due the acquisition of a condominium unit as part of the Michigan Senate Offices Project.

Condensed Financial Information

Statement of Activities

For the Fiscal Years Ended September 30

	<u>2015</u>	<u>2014</u>
Expenses		
Community Development Block Grants (CDBG)	\$ 34,594,027	\$ 25,961,215
Arts and Cultural Grants	9,818,671	9,810,762
Michigan Energy Office	2,530,171	3,536,310
Jobs for Michigan Investment Fund	141,627,120	110,513,938
Workforce Development Agency Fund	259,947,308	267,373,834
Film Incentives and other programs	49,154,798	30,802,577
Payments to the Michigan Economic Development Corporation (MEDC)	80,391,645	82,327,617
Other	29,116,605	16,118,010
Total program expenses	<u>\$ 607,180,344</u>	<u>\$ 546,444,264</u>
Program revenues		
Charges for services	\$ 2,218,901	\$ 3,836,003
Operating grants and contributions	283,200,576	278,065,628
Total program revenues	<u>\$ 285,419,476</u>	<u>\$ 281,901,631</u>
Net program expenses	<u>\$ 321,760,868</u>	<u>\$ 264,542,633</u>
General revenues		
Payments from the State of Michigan	\$ 291,755,821	\$ 279,937,606
Other	79,838,491	76,585,510
Total general revenues	<u>\$ 371,594,313</u>	<u>\$ 356,523,116</u>
Change in net position	<u>\$ 49,833,445</u>	<u>\$ 91,980,483</u>
Net position - Beginning Restated	<u>\$ 458,329,865</u>	<u>\$ 419,470,508</u>
Net position - Ending	<u><u>\$ 508,163,310</u></u>	<u><u>\$ 511,450,991</u></u>

CDBG expenses increased by \$8.6 million in fiscal year 2015 due to increases in awards made to subrecipients. CDBG is a federal pass-through grant program and grant awards are spent over several years.

Jobs for Michigan Investment Fund expenses increased by \$31.1 million mainly due to increased spending in the Business Attraction and Community Revitalization programs.

Workforce Development Agency Fund and **Michigan Energy Office** expenses primarily consist of federal pass-through grants to local governmental units, private entities, and universities. Expenses decreased by \$8.4 million due to a reduction in federal funds.

Film Incentives and other programs expenses increased by \$18.4 million mainly due to a \$37.1 million grant payment to Michigan State University for the Facility for Rare Isotope Beams Project. This increase was partially offset by a decrease of \$18.9 million in Film Incentive expenditures mainly due a reduction in appropriations.

Payments to MEDC primarily consist of MSF State appropriations transferred to fund programs administered by MEDC and tribal gaming revenue. This line item decreased by a net amount of \$1.9 million during fiscal year 2015.

Other expenses primarily consist of payments to the General Fund, other interest, and miscellaneous and receivable write-off expenses. This line item increased by \$13.0 million including \$6.7 million in bond interest payments due to the new bond issuances for the Facility for Rare Isotope Beams Project and the Community Colleges Skilled Trade Equipment Program, and \$7.4 million in loan loss provisions for doubtful loans.

Operating grants and contributions primarily reflect the funds received from the federal government for the CDBG, Workforce Development Agency, and Michigan Energy Office programs. This line item increased by a net amount of \$5.1 million during fiscal year 2015.

Payments from the State of Michigan primarily consist of transfers of MSF appropriations from the State General Fund of \$122.7 million, payment from Michigan Department of Treasury for debt service of \$7.3 million, and reimbursements of MSF expenditures from the 21st Century Jobs Trust Fund of \$161.8 million. The revenue from the General Fund transfers decreased by \$12.8 million as a result of reduced authorization to the Film Incentive Program, which was partially offset by an increase in

appropriations for special grants to targeted industries and recipients for economic development support. The revenue from the 21st Century Jobs Trust Fund for grants, loans, investments, and promotion programs increased by \$17.4 million as a result of increased program expenditures as well as loans and investments made using these funds.

Other general revenues primarily consist of tribal gaming revenue, investment income, and lease revenue related to capital lease agreements. This line item increased by a net amount of \$3.3 million during fiscal year 2015, due to an increase in investment income offset by a decline in tribal gaming revenues and in miscellaneous revenue due to grant repayment that was received in fiscal year 2014.

Other Pertinent Information

Executive Order No. 2014-12, effective March 2015, created the Department of Talent and Economic Development (DTED) to act as one entity focused on growing Michigan's economy and creating more and better jobs. The Executive Order also created the Michigan Talent Investment Agency (MTIA) to house the Unemployment Insurance Agency, and the Workforce Development Agency. DTED is comprised of the MSF, MTIA, and MSHDA. Funding for DTED was established in 2015 PA 84 for fiscal year 2016 for the first time.

Executive Order 2015-10, effective May 2015, created the Michigan Agency on Energy (MAE) in LARA to establish a single entity for the development of energy policy and long-term energy solutions. The Michigan Energy Office, transferred from DELEG in 2011, was transferred from the MSF to the newly created MAE in May. Funding for MAE was established in 2015 PA 84 for fiscal year 2016 for the first time.

BASIC FINANCIAL STATEMENTS

MICHIGAN STRATEGIC FUND
Statement of Net Position
As of September 30, 2015

ASSETS

Current assets:	
Cash (Note 3)	\$ 121,800,317
Equity in common cash (Note 3)	286,114,731
SSBCI checking account (Note 3)	30,607,195
Collateral deposits (Note 4)	23,298,426
Participation loans	7,410,413
Amount due from federal government	39,113,959
Amounts due from local units	60,340
Amounts due from primary government	631,307
Amount due from component unit	9,905
Loans receivable (Note 5)	5,805,622
Capital lease receivable (Note 6)	9,569,740
Interest receivable (Note 5)	1,805,199
Other current assets	24,256,244
Total current assets	<u>\$ 550,483,398</u>
Noncurrent assets:	
Capital Access Program (Note 3, 4, and 10)	\$ 6,573,967
Collateral deposits (Note 4)	29,802,432
Participation loans	48,905,986
Capital lease receivable (Note 6)	212,223,181
Loans receivable (Note 5)	41,209,096
Interest receivable (Note 5)	72,384
Investments (Note 3)	145,077,066
Other noncurrent assets	4,800,000
Total noncurrent assets	<u>\$ 488,664,111</u>
Total assets	<u>\$ 1,039,147,509</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	\$ 3,930,493
Total deferred outflows of resources	<u>\$ 3,930,493</u>
Total assets and deferred outflows of resources	<u>\$ 1,043,078,002</u>

LIABILITIES

Current liabilities:	
Accounts payable and other liabilities	\$ 83,657,442
Compensated absences (Note 10)	960,905
Amounts due to component units	11,663,966
Capital Access Program (Note 4 and 10)	272,768
Amounts due to primary government	24,269
Interest payable	6,634,219
Bonds payable (Note 8)	14,395,000
Unearned revenue	935,801
Total current liabilities	<u>\$ 118,544,369</u>
Long-term liabilities:	
Bonds payable (Note 8)	\$ 381,079,882
Unearned revenue	50,000
Compensated absences (Note 10)	1,186,781
Capital Access Program (Note 4 and 10)	6,305,107
Net pension liability (Note 10)	24,835,567
Total long-term liabilities	<u>\$ 413,457,337</u>
Total liabilities	<u>\$ 532,001,706</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	\$ 2,912,986
Total deferred inflows of resources	<u>\$ 2,912,986</u>
Total liabilities and deferred inflows of resources	<u>\$ 534,914,692</u>

NET POSITION

Restricted For:	
Other purposes	\$ 661,281,115
Unrestricted	<u>(153,117,805)</u>
Total net position	<u>\$ 508,163,310</u>

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

MICHIGAN STRATEGIC FUND
Statement of Activities
For the Fiscal Year Ended September 30, 2015

EXPENSES (Note 1)

Community Development Block Grants	\$ 34,594,027
Arts and Cultural Grants	9,818,671
Michigan Energy Office	2,530,171
Jobs for Michigan Investment Fund	141,627,120
Workforce Development Agency	259,947,308
Film Incentives and other programs	49,154,798
Payments to MEDC	80,391,645
Payments to General Fund (indirect and refund)	1,428,529
Other Interest	16,135,113
Miscellaneous and receivable write-off	11,552,963
Total program expenses	<u>\$ 607,180,344</u>

PROGRAM REVENUES (Note 1)

Charges for services

Program fees	\$ 2,218,901
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Operating grants and contributions

Federal revenues	282,743,149
Revenues from local units	457,427
Total program revenues	<u>\$ 285,419,476</u>

Net program expense	<u>\$ 321,760,868</u>
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GENERAL REVENUES (Note 1)

Payments from the State of Michigan

Payments from General Fund	\$ 130,002,814
Payments from 21st Century Jobs Trust Fund	161,753,007

Other

Interest and investment earnings	5,476,009
Net increase (decrease) in fair value of investments	16,813,814
Tribal gaming	39,868,091
Lease revenue	9,685,245
Miscellaneous and payable write-off	7,995,332
Total general revenues	<u>\$ 371,594,313</u>

Increase in net position	\$ 49,833,445
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Net position - Beginning Restated (Note 2)	<u>458,329,865</u>
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Net position - Ending	<u>\$ 508,163,310</u>
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The accompanying notes are an integral part of the financial statements.

MICHIGAN STRATEGIC FUND
Governmental Fund Balance Sheet
As of September 30, 2015

	Major Funds				Total
	General Operations Fund	Workforce Development Agency	Jobs for Michigan Investment Fund	Debt Service Fund	
Assets					
Current assets:					
Cash (Note 3)	\$ 100,231,897	\$ -	\$ -	\$ 21,568,420	\$121,800,317
Equity in common cash (Note 3)	128,991,171	4,276,693	152,846,868	-	286,114,731
SSBCI checking account (Note 3)	30,607,195	-	-	-	30,607,195
Collateral deposits (Note 4)	13,828,919	-	9,469,507	-	23,298,426
Participation loans	2,615,130	-	4,795,283	-	7,410,413
Amounts due from federal government	14,532,768	24,581,191	-	-	39,113,959
Amounts due from local units	-	60,340	-	-	60,340
Amounts due from primary government	413,693	-	217,614	-	631,307
Amounts due from component unit	9,905	-	-	-	9,905
Loans receivable (Note 5)	1,460,008	-	4,345,614	-	5,805,622
Interest receivable (Note 5)	597,322	-	1,207,877	-	1,805,199
Other current assets	9,380,339	2,601,834	12,274,071	-	24,256,244
Total current assets	<u>\$ 302,668,347</u>	<u>\$ 31,520,058</u>	<u>\$ 185,156,834</u>	<u>\$ 21,568,420</u>	<u>\$540,913,659</u>
Noncurrent assets:					
Capital Access Program (Note 3, 4 and 10)	\$ 6,573,967	\$ -	\$ -	\$ -	\$ 6,573,967
Collateral deposits (Note 4)	23,798,356	-	6,004,076	-	29,802,432
Participation loans	8,789,189	-	40,116,797	-	48,905,986
Loans receivable (Note 5)	6,946,830	-	34,262,266	-	41,209,096
Interest receivable (Note 5)	-	-	72,384	-	72,384
Investments (Note 3)	1,125,000	-	143,952,066	-	145,077,066
Other noncurrent assets	4,750,000	-	50,000	-	4,800,000
Total noncurrent assets	<u>\$ 51,983,341</u>	<u>\$ -</u>	<u>\$ 224,457,588</u>	<u>\$ -</u>	<u>\$276,440,930</u>
Total assets	<u>\$ 354,651,689</u>	<u>\$ 31,520,058</u>	<u>\$ 409,614,422</u>	<u>\$ 21,568,420</u>	<u>\$817,354,588</u>
DEFERRED OUTFLOWS OF RESOURCES					
Total assets and deferred outflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	\$ 16,738,629	\$ 31,456,308	\$ 35,462,505	\$ -	\$ 83,657,442
Amounts due to component units	5,805,512	29,784	1,303,609	-	7,138,905
Capital Access Program (Note 4 and 10)	272,768	-	-	-	272,768
Unearned revenue	179,035	33,265	-	723,501	935,801
Total current liabilities	<u>\$ 22,995,944</u>	<u>\$ 31,519,358</u>	<u>\$ 36,766,114</u>	<u>\$ 723,501</u>	<u>\$ 92,004,916</u>
Long-term liabilities:					
Unearned revenue	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Capital Access Program (Note 4 and 10)	6,305,107	-	-	-	6,305,107
Total long-term liabilities:	<u>\$ 6,305,107</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 6,355,107</u>
Total liabilities:	<u>\$ 29,301,050</u>	<u>\$ 31,519,358</u>	<u>\$ 36,816,114</u>	<u>\$ 723,501</u>	<u>\$ 98,360,023</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	\$ 4,525,061	\$ -	\$ 17,493,619	\$ -	\$ 22,018,680
Total deferred inflows of resources	<u>\$ 4,525,061</u>	<u>\$ -</u>	<u>\$ 17,493,619</u>	<u>\$ -</u>	<u>\$ 22,018,680</u>
FUND BALANCE					
Restricted Fund Balance	\$ 290,654,761	\$ -	\$ 355,304,689	\$ 20,844,919	\$666,804,369
Committed Fund Balance	37,251	-	-	-	37,251
Assigned Fund Balance	28,924,643	-	-	-	28,924,643
Unassigned Fund Balance	1,208,922	700	-	-	1,209,622
Total fund balance	<u>\$ 320,825,577</u>	<u>\$ 700</u>	<u>\$ 355,304,689</u>	<u>\$ 20,844,919</u>	<u>\$696,975,885</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 354,651,689</u>	<u>\$ 31,520,058</u>	<u>\$ 409,614,422</u>	<u>\$ 21,568,420</u>	<u>\$817,354,588</u>

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

MICHIGAN STRATEGIC FUND
 Reconciliation of the Governmental Fund Balance Sheet
 to the Statement of Net Position
As of September 30, 2015

Total fund balance \$ 696,975,885

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

Capital lease receivable is not available to pay for current period expenditures and therefore is not reported in the governmental fund statement. 221,792,921

Deferred outflows related to pensions are not due and payable in the current period and therefore are not reported in the governmental fund statement 3,930,493

Compensated absences and net pension obligations are not due and payable in the current period and therefore are not reported in the governmental fund statement. (26,983,253)

Bonds payable and interest payable are not due and payable in the current period and therefore are not reported in the governmental fund statement.

Bonds payable	(395,474,882)
Bond interest payable	(6,634,219)

Amounts due to primary government are not due and payable in the current period and therefore are not reported in the governmental fund statement. (24,269)

Amounts due to component units are not due and payable in the current period and therefore are not reported in the governmental fund statement. (4,525,061)

Deferred inflows of resources is not available for the current period and therefore is not recognized as revenue in the governmental fund statement. This includes:

Tribal gaming revenue	16,675,061
Related to Pensions	(2,912,986)
Loan interest revenue	5,343,619
	5,343,619

Net position of governmental activities \$ 508,163,310

MICHIGAN STRATEGIC FUND

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended September 30, 2015

	Major Funds				Total
	General Operations Fund	Workforce Development Agency	Jobs for Michigan Investment Fund	Debt Service Fund	
REVENUES (Note 1)					
<u>Charges for services</u>					
Program fees	\$ 2,218,901	\$ -	\$ -	\$ -	\$ 2,218,901
<u>Operating grants and contributions</u>					
Federal Revenues	36,332,490	246,410,659	-	-	282,743,149
Revenues from Local Units	457,427	-	-	-	457,427
<u>Payments from the State of Michigan</u>					
Payments from General Fund	108,056,297	14,646,517	-	7,300,000	130,002,814
Payments from 21st Century Jobs Trust Fund	-	-	161,753,007	-	161,753,007
<u>Other</u>					
Tribal gaming	24,713,638	-	15,380,280	-	40,093,918
Payments from MEDC - Other	-	-	-	-	-
Interest and Investment earnings	1,459,250	-	6,540,142	-	7,999,392
Net increase (decrease) in fair value of investments	-	-	16,813,814	-	16,813,814
Lease revenue	-	-	-	18,330,345	18,330,345
Miscellaneous and receivable/payable write-off	3,630,275	1,636,270	2,521,308	839	7,788,692
Total revenues	<u>\$ 176,868,277</u>	<u>\$ 262,693,446</u>	<u>\$ 203,008,551</u>	<u>\$ 25,631,184</u>	<u>\$ 668,201,458</u>
EXPENDITURES (Note 1)					
Building & Renovation - Capitalized Purchases	41,000,000	-	-	-	41,000,000
Other Interest	-	-	-	15,843,337	15,843,337
Debt Service Principal Redemption	-	-	-	9,135,000	9,135,000
Community Development Block Grants	34,594,027	-	-	-	34,594,027
Arts and Cultural Grants	9,818,671	-	-	-	9,818,671
Michigan Energy Office	2,530,171	-	-	-	2,530,171
Jobs for Michigan Investment Fund	-	-	141,627,120	-	141,627,120
Workforce Development Agency	-	259,947,308	-	-	259,947,308
Film Incentives and other programs	49,154,798	-	-	-	49,154,798
Payments to MEDC	81,042,944	-	-	-	81,042,944
Payments to General Fund (indirect and refund)	56,009	1,372,520	-	-	1,428,529
Miscellaneous and receivable write-off	7,424,433	1,373,618	3,001,198	-	11,799,249
Total expenditures	<u>\$ 225,621,053</u>	<u>\$ 262,693,446</u>	<u>\$ 144,628,318</u>	<u>\$ 24,978,337</u>	<u>\$ 657,921,154</u>
Excess of revenues over/(under) expenditures	<u>\$ (48,752,776)</u>	<u>\$ -</u>	<u>\$ 58,380,233</u>	<u>\$ 652,847</u>	<u>\$ 10,280,305</u>
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	\$ 101,938,584	\$ -	\$ -	\$ 7,251,416	109,190,000
Bond Premium	\$ 9,323,296	\$ -	\$ -	\$ -	9,323,296
Transfer from General Operations Fund	-	-	-	826,313	826,313
Transfer to Debt Service Fund	(826,313)	-	-	-	(826,313)
Other financing sources (uses)	<u>\$ 110,435,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,077,728</u>	<u>\$ 118,513,296</u>
Net change in fund balances	\$ 61,682,792	\$ -	\$ 58,380,233	\$ 8,730,575	128,793,601
Fund balance - Beginning Restated (Note 2)	<u>259,142,785</u>	<u>700</u>	<u>296,924,456</u>	<u>12,114,344</u>	<u>568,182,284</u>
Fund balance - Ending	<u>\$ 320,825,577</u>	<u>\$ 700</u>	<u>\$ 355,304,689</u>	<u>\$ 20,844,919</u>	<u>\$ 696,975,885</u>

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

MICHIGAN STRATEGIC FUND

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended September 30, 2015

Net change in fund balance	\$ 128,793,601
Amounts reported for governmental activities in the statement of activities are different because:	
Bond proceeds and bond premium provide current financial resources to the governmental fund by issuing debt which increases long-term bonded debt in the statement of net position.	(118,513,296)
Tribal Gaming revenues that are were reported as resources in the fund statement but were earned in prior fiscal years are not reported in the statement of activities.	(225,827)
Certain interest and investment earnings are delayed and not available and have been deferred at the governmental fund level but are recognized in the statement of activities.	(2,523,383)
Lease revenue is recorded as a resource in the governmental fund statement; however, a portion of the lease revenue is applied to the lease receivable in the statement of activities.	(8,645,100)
Building and renovation is reported as an expenditure in the governmental fund statement but was reported as a capital lease in the statement of activities.	41,000,000
Payments to MEDC that were reported as expenditures in the governmental fund statement but were due and payable in the prior fiscal year are not reported in the statement of activities.	651,299
Other interest expense for bonds payable that is not due and payable in the current period is not recorded in the governmental fund statement.	(291,776)
Debt service principal redemption was due and payable in the current period and was reported as an expenditure in the governmental fund statement.	9,135,000
Miscellaneous and receivable write off were not recorded in governmental fund statement for receivables recorded in statement of activities.	(206,640)
Miscellaneous and payable write off were not recorded in governmental fund statement for payables recorded in statement of activities.	206,640
Compensated absences, supplemental pension payments and net pension obligations are not reported in the governmental fund statement because payments are not due and do not use current financial resources.	<u>452,927</u>
Change in net position of governmental activities	<u>\$ 49,833,445</u>

Notes to the Financial Statements

Note 1 Significant Accounting Policies

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

a. Reporting Entity

MSF was created by Act 270, P.A. 1984, to help diversify the economy of the State of Michigan and to provide for economic development, primarily by assisting business enterprises in obtaining additional sources of financing. Under the provisions of this Act, MSF succeeded to the rights, properties, obligations, and duties of the Michigan Job Development Authority and the Michigan Economic Development Authority.

Executive Order No. 1999-1 further authorized MSF to enter into an interlocal agreement with local public agencies. Under this authority, MSF entered into an interlocal agreement and created the Michigan Economic Development Corporation (MEDC) as a new public entity in 1999 to help administer the programs transferred to MSF. The interlocal agreement provided that any economic development programs transferred to MSF could be transferred, along with the relevant personnel and funding, to MEDC.

Executive Order No. 2003-18, effective December 7, 2003, transferred MSF as an autonomous agency from the Department of Management and Budget to the Department of Energy, Labor & Economic Growth (DELEG). Subsequently, Act 225, P.A. 2005, effective November 21, 2005, transferred MSF as an autonomous agency from DELEG to the Department of Treasury.

MSF is governed by an 11-member Board of Directors that consists of MEDC's chief executive officer, the State Treasurer, the director of the Department of Licensing and Regulatory Affairs, and 8 members who are appointed by the Governor with the advice and consent of the Senate.

MSF 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 MSF Board of Directors and there is a financial burden/benefit relationship between MSF and the State.

Executive Order No. 2011-4, effective April 24, 2011, transferred the Bureau of Workforce Transformation and energy programs from DELEG and the State Land Bank Fast Track Authority (SLBFTA) and the Michigan State Housing Development Authority (MSHDA) from the Department of Treasury to MSF. However, all accounting and reporting responsibilities were transferred effective October 1, 2011, except for MSHDA, which is responsible for its own accounting and reporting responsibilities.

Executive Order No. 2013-8, effective July 16, 2013, transferred SLBFTA from MSF to MSHDA. In accordance with governmental accounting and financial reporting standards, SLBFTA and MSHDA are not considered component units of MSF and are reported as discretely presented component units of the State of Michigan in the fiscal year 2014 *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Executive Order No. 2014-8, effective July 21, 2014, abolished the SLBFTA Board of Directors and Office of Executive Director and transferred all responsibilities and functions to the executive director of MSHDA. Therefore, beginning in fiscal year 2015, SLBFTA will be reported as a component unit of MSHDA.

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, MSHDA from MSF, and SLBFTA from MSHDA to DTED. The executive order also created the Michigan Talent Investment Agency (MTIA) within DTED and transferred the Workforce Development Agency (WDA) from MSF and the Unemployment Insurance Agency (UIA) from LARA to MTIA. However, all accounting and reporting responsibilities were transferred effective October 1, 2015 and in fiscal year 2015 MSF included WDA's financial activity.

Executive Order No. 2015-10, effective May 2015, transferred the Michigan Energy Office (MEO) from the MEDC and MSF to LARA. However, all accounting and reporting responsibilities were transferred effective October 1, 2015, and in fiscal year 2015 MSF included MEO's financial activity.

b. Financial Statement Presentation

MSF's financial statements include the entity-wide and governmental fund financial statements. The entity-wide financial statements include the statement of net position and the statement of activities and report on MSF as a whole. The statement of net position presents MSF's 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 MSF's net position. The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

MSF's governmental fund financial statements include MSF's General Operations Fund, Workforce Development Agency Fund (a special revenue fund), Jobs for Michigan Investment Fund (a special revenue fund), and Debt Service Fund. All of MSF's funds are considered major funds. MSF's four funds are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures. The General Operations Fund accounts for all of the activities of MSF except those accounted for in the Workforce Development Agency Fund, the Jobs for Michigan Investment Fund, and the Debt Service Fund. The Workforce Development Agency Fund accounts for revenues and expenditures related to the workforce programs, including the State's workforce initiatives, adult education, the Veteran's Services Division, and programs related to migrant and seasonal workers. The Jobs for Michigan Investment Fund accounts for the investment, loan, and grant activity

provided for in Act 225, P.A. 2005. The Debt Service Fund accounts for the accumulation of resources for, and the payment of, principal and interest for limited obligation revenue bonds issued. Additional disclosures describing the bonds accounted for in the Debt Service Fund are provided in Note 8.

The accompanying financial statements present only MSF. 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 component units in conformity with GAAP.

c. Measurement Focus and Basis of Accounting

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

d. Financial Data

(1) MSF's General Operations Fund includes the following:

- (a) Revenues: Revenues include federal revenues for Community Development Block Grants (CDBGs) from the U.S. Department of Housing and Urban Development; federal grants from the U.S. Department of Energy; State appropriations from the General Fund; tribal gaming; interest and investment earnings; fees from private activity bond* (PAB) issuances; and fees from Michigan Economic Growth Authority (MEGA) and Brownfield program applications.

(b) Expenditures: CDBG expenditures primarily consist of pass-through grants to local governmental units. Michigan Energy Office expenditures primarily consist of pass-through grants to local governmental units and private entities. Film Office expenditures consist of grants to film producers to promote film industry in Michigan. Arts and Cultural Grants expenditures consist of grants to local libraries, schools, and art groups. Payments to MEDC include tribal gaming; fees from PABs, MEGA, and Brownfield; and State appropriations for programs administered by MEDC. Expenditures in each of the programs also include administrative and other miscellaneous costs.

(2) MSF's Workforce Development Agency Fund primarily includes the following:

(a) Revenues: Revenues include federal grants from the U.S. Department of Agriculture, U.S. Department of Education, U.S. Department of Health and Human Services, and U.S. Department of Labor and State General Fund appropriations.

(b) Expenditures: Expenditures primarily consist of pass-through grants to local governmental units, private entities, and universities.

(3) MSF's Jobs for Michigan Investment Fund primarily includes the following:

(a) Revenues: Revenues include payments from the 21st Century Jobs Trust Fund, tribal gaming, and interest and investment earnings from loans and investments.

(b) Expenditures: Expenditures primarily consist of grants to private entities, universities, and colleges and expenditures for travel promotion, business marketing, business incentive programs, and administration.

- (4) MSF's Debt Service Fund primarily includes lease revenue and interest earned on the lease payments, bond proceeds, and State General Fund appropriations deposited in the bank for the accumulation of resources for, and the payment of, principal and interest for limited obligation revenue bonds.

e. Fund Balance Classifications

- (1) Restricted fund balance includes amounts that are restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. MSF's restricted fund balance consists of the entire fund balance in the Jobs for Michigan Investment Fund, fund balance for funds created through enabling legislation, collateral deposits and participation loans of the Michigan Business Growth Fund (MBGF) programs, the unspent amount of the cash advance from the State Small Business Credit Initiative (SSBCI) program, the unspent cash reserves less amounts held for others for the various bond issuances, and the limited obligation revenue bond cash remaining in the Debt Service Fund at year-end (Note 11).
- (2) Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law. MSF's committed fund balance consists of the fund balance for grant application fees authorized to be collected through MSF's annual appropriations act.
- (3) Assigned fund balance includes amounts that are constrained by MSF's intent to be used for specific purposes, but are neither restricted nor committed. MSF's assigned fund balance consists of encumbrances funded by MSF appropriations that were not previously restricted or committed.
- (4) Unassigned fund balance is the residual classification for the General Operations Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Operations Fund.

(5) MSF's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted or unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the intent is to use committed resources first, then assigned. Unassigned amounts are generally used only after the other resources have been used.

Note 2 Accounting Changes and Restatements

a. Accounting Changes

During fiscal year 2015, MSF implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. As a result, the financial statements now include a net pension liability for our unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. The effects of applying this standard are disclosed in Note 7. As a result of implementing this statement, the MSF restated its beginning net position by (\$24,222,322).

b. Restatements

During fiscal year 2015, MSF also restated its beginning fund balance and net position for the following:

- (1) Decreased beginning fund balance in its Jobs for Michigan Investment Fund and decreased beginning net position on its statement of activities by \$224,948 to account for a prior period adjustment.
- (2) Increased beginning fund balance in its General Operations Fund by \$63,258,314 and decreased beginning net position on its statement of activities by \$28,673,856 to reflect a prior period accounting adjustment to account for the limited obligation revenue bonds that were issued in fiscal year 2014 for the Facility for Rare Isotope Beams Project. Additional disclosures describing the bond issuance are provided in Note 8.

As a result of these restatements, including implementing GASB Statement No. 68, MSF restated its beginning fund balance to \$568,182,284 and its beginning net position to \$458,329,865.

Note 3 Deposits and Investments

a. Deposits

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

Equity in common cash	\$ 286,114,731
Deposits	152,407,512
Capital Access Program	6,573,967
Collateral deposits	53,100,857
Total deposits	<u>\$ 498,197,067</u>

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of a bank failure, MSF 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 MSF's name.

Deposits included in MSF's bank accounts (without recognition of outstanding checks or deposits in transit) were \$211,687,079 on September 30, 2015. The majority of these balances are from the various bank accounts within the Capital Access Program, the Michigan Supplier Diversification Fund Program, the SSBCI checking account and various bond issuances. Of that amount, \$187,996,325 was uninsured and uncollateralized and \$719,090 was uninsured and 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 MSF's name; therefore, these amounts were exposed to custodial credit risk. MSF has no policy for controlling custodial credit risk.

MSF'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 each financial institution's net worth. As of September 30, 2015, 99.93% of the State's common cash was either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. Additional details on this policy are described in the *SOMCAFR*.

b. Investments

MSF invests directly, or through investment funds, to strengthen and diversify Michigan's economy by providing financial assistance to businesses to create jobs or new businesses and industries. Act 225, P.A. 2005, authorized MSF to invest in venture capital, mezzanine, and private equity funds. The MSF Board of Directors approves new investments.

In 2006, MSF entered into a contract with DLJ MB Advisors, Inc. (DLJ), an affiliate of the Credit Suisse Group (which sold its private equity group to Grosvenor Capital Management in fiscal year 2014), to facilitate MSF's investments in new businesses and industries or new products and processes, which may have a higher risk than investments in established businesses or industries. The 21st Century Investment Fund, a limited partnership, was established for these investments. DLJ is the general partner, and MSF is a limited partner.

In addition, MSF has venture capital investments in Life Sciences, Advanced Automotive, and Alternative Energy (transferred from MEDC by Act 225, P.A. 2005). These venture capital investments were previously approved by the Life Sciences and Technology Tri-Corridor steering committees in MEDC.

MSF investments are generally reported at fair value as determined by MSF's portfolio managers based on site visits, review of companies' available financial data/reports, and professional judgment. The following table shows the fair value of investments at September 30, 2015 by investment type and in total:

Type of Investment	Fair Value (in millions) as of September 30, 2014
Venture capital - Limited partnerships	\$ 74.9
Venture capital - Stockholder	40.7
Mezzanine funds	12.7
Private equity	16.8
Total investments	\$145.1

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of MSF's investments with a single issuer. MSF does not have a policy limiting the dollar value of investments with a single issuer. At September 30, 2015, MSF did not have any investments with a single issuer that were more than 5% of MSF's total investments.

Note 4 Nonexchange Financial Guarantees

MSF extends nonexchange financial guarantees through its Capital Access Program, collateral deposit programs, and the Loan Guarantee Program. The MSF Board of Directors has the legal authority to approve the program creation and guidelines and to delegate authority for the administration of the programs. MSF has a contractual relationship with the issuing financial entities that are issuing the obligations under both programs.

Under the Capital Access Program, MSF contributes a minimum of 3% and a maximum of 7% of the total loan amount that is deposited into a special reserve fund to cover future losses that may occur on these loans. The length of time of the guarantees varies as it is only when the issuing entity stops offering this program and all loans are paid in full that any remaining funds in the reserve fund would be returned to MSF. Due to the high risk nature of these loans, MSF records a liability that is limited to the amount of deposits MSF has made to the special reserve account. As of September 30, 2015, the total amount on deposit in the reserve fund was \$6,577,875.

Under the collateral deposit programs, MSF generally guarantees up to 49.9% of the total loan amount, with a total dollar limit of \$5.0 million per project. The length of time of the guarantees is based on the length of each borrowing period as determined between the lender and the borrower. On a quarterly basis, MSF

reconciles its collateral deposit balances with the lenders and collects any monies that are contractually owed back to MSF. Based on information obtained by MSF from the lenders regarding the likelihood of default, MSF did not recognize any liability for these deposits. MSF has separate subordinated guarantee agreements with the borrowers for the majority of its collateral deposits, which provide MSF with the right to recover its funds in the event of default. As of September 30, 2015, collateral deposits were \$53,100,857, which include outstanding guarantees of \$51,255,813.

Under LGP, MSF generally guarantees up to 80% of the total loan amount with a total program dollar limit of \$2,750,000. The length of time of the guarantees is based on the length of each borrowing period as determined between the lender and the borrower. MSF has separate agreements with the financial institutions issuing the loans which provide MSF payment obligations and arrangements for recovery payments. As of September 30, 2015, outstanding guarantees totaled \$1,024,000.

Note 5 Loans and Interest Receivable

Loans receivable totaled \$38,607,879 on September 30, 2015 for the Jobs for Michigan Investment Fund. These are high-risk loans issued for the purpose of diversifying Michigan's economy and helping to create jobs in competitive edge technologies. The loans were issued to organizations that research or commercialize (transition from research to market) products, processes, or services in the competitive edge technologies. These loans may be converted to investments at MSF's option with MSF Board of Directors' approval.

The loans are for varying lengths and interest rates. Interest and loan repayments may be initially delayed for several years to provide the borrower with an opportunity to substantially complete the project. Interest receivable of \$1,280,261, consisting of \$1,207,877 in current interest receivable and \$72,384 in noncurrent interest receivable, was reported as revenue on the entity-wide financial statements but as deferred inflows of resources on the governmental fund balance sheet because the revenue was not available.

Loans receivables totaled \$8,406,838 at September 30, 2015 for the General Operations Fund. These are loans issued by the Michigan Energy Office to public or private entities with limited resources to gain access to capital to purchase and install energy conservation measures and manufacturing equipment and to retool. The direct loans are for Energy Efficiency and Renewable Energy projects and are limited to those activities specifically listed as eligible activities in the federal State Energy Program regulation.

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

Loan Category	Loans Receivable
Technology Tri-Corridor	\$ 5,388,102
Life Sciences Corridor	501,225
Choose Michigan Fund	3,642,549
Competitive Edge Technology:	
Advanced Automotive, Manufacturing, and Materials Technology	4,686,031
Life Sciences Technology	19,695,540
Homeland Security and Defense Technology	8,703,051
Alternative Energy Technology	718,385
Capital Conduit Program	11,506,456
Business Attraction & Economic Gardening	9,000,000
Pure Michigan Venture Match Fund	500,000
Michigan Energy Office loans	11,186,336
Total	\$ 75,527,676
Less: Allowance for uncollectible loans	(28,512,958)
Total loans receivable (net)	\$ 47,014,718

Note 6 Capital Lease Receivable

As described in Note 8, MSF issued limited obligation revenue bonds to acquire ownership in the Anderson House Office Building, the Cadillac Place Building, and a condominium unit in the Capital View Building. MSF's capital lease agreements with the Michigan House of Representatives (Anderson House Office Building), the Department of Technology, Management, and Budget (DTMB) (Cadillac Place building), and the Michigan Senate (Capital View Building) contained lease maturity dates of October 15, 2023, September 1,

2031, and October 15, 2047, respectively. At the end of the leases, the House of Representatives, DTMB, and the Senate may purchase the buildings / condominium unit for nominal amounts. The lease payments are paid to a trustee and are being used to pay the interest and retire bonds issued to purchase the buildings / condominium unit. The lease payments are contingent upon annual appropriation by the State of Michigan, and neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the leases. The following table summarizes the components of MSF's net lease receivable:

Capital Lease Receivable

	As of September 30, 2015
Total lease payments to be received	\$383,985,124
Less: Unearned interest income	162,192,203
Net lease receivable	\$221,792,921
Statement of net position classification:	
Current portion of lease receivable	\$ 9,569,740
Long-term portion of lease receivable	212,223,181
Total	\$221,792,921

Lease payments to be received from the House of Representatives, DTMB and the Senate as of September 30, 2015:

Fiscal Year Ended September 30	Lease Receivable
2016	\$ 18,100,813
2017	18,645,563
2018	23,684,275
2019	24,266,025
2020	24,632,525
2021 - 2030	193,345,526
2031 - 2040	49,994,363
2041 - 2047	31,316,034
Total	\$ 383,985,124

Note 7 Pension Plans and Other Employee Benefits

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. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor and disability benefits to the State's government employees.

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

B. Benefits Provided

Introduction

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

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

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

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

Pension Reform of 2012

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

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

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

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

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

Regular Retirement

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

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

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

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

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

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

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

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

Deferred Retirement

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

Non-Duty Disability Benefit

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

Duty Disability Benefit

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

Survivor Benefit

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

Pension Payment Options

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

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

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

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

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

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

Post Retirement Adjustments

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

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 2015, the MSF's contribution rate was 27.5% of the defined benefit employee wages and 24.2% of the defined contribution employee wages. The Michigan Strategic Fund contribution to SERS for the fiscal year ending September 30, 2015 was \$3,211,137.

D. Actuarial Assumptions

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

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

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

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, 2014, are summarized in the following table:

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

* Rate of return does not include 2.5% 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, 2015, the Michigan Strategic Fund reported a liability of \$24,835,567 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The Michigan Strategic Fund's proportion of the net pension liability was based on the Michigan Strategic Fund's required pension contributions received by SERS during the measurement period October 1, 2013, through September 30, 2014, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2014, the Michigan Strategic Fund's proportion was .483%.

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

G. Pension Liability Sensitivity

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

	<u>1% Decrease</u> <u>7.0%</u>	<u>Current Discount</u> <u>8.0%</u>	<u>1% Increase</u> <u>9.0%</u>
Component Unit's proportionate share of the net pension liability	\$32,315,425	\$24,835,567	\$18,400,392

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the MSF recognized pension expense of \$2,806,875. At September 30, 2015, the MSF 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	\$ -	\$ -
Changes of assumptions	719,256	-
Net difference between projected and actual earnings on investments	-	2,912,986
Changes in proportion and differences between actual contributions and proportionate share of contributions	100	-
Component Unit contributions subsequent to the measurement date	3,211,137.00	-
Total	\$ 3,930,493.00	\$ 2,912,986.00

Amounts reported as deferred outflows of resources related to pensions resulting from Michigan Strategic Fund’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	Pension Expense Amount
2016	\$ (8,891)
2017	(728,247)
2018	(728,247)
2019	(728,245)

Defined Contribution Plan

MSF reimburses MEDC for MEDC nonclassified employees working on MSF programs. MEDC offers a defined contribution plan (under Section 401(a) of the Internal Revenue Code) to nonclassified employees after one year of service. MEDC also offers a deferred compensation plan (under Section 457 of the Internal Revenue

Code) to nonclassified employees upon employment. Both plans are administered by Alerus Retirement Solutions, a third party administrator, and the employees manage their own investments. Other than making contributions to the 401(a) retirement plan, neither MEDC nor MSF have any other pension benefit obligation liability.

On August 5, 1999, the MEDC Executive Committee approved an employer contribution rate of 8% of an employee's gross wages to the 401(a) retirement plan for eligible employees. Vesting of the benefits occurs over a five-year period. MSF reimburses MEDC for an employer contribution rate of 8% of an employee's gross wages to the 401(a) retirement plan for eligible employees. During fiscal year 2008, the MEDC Executive Committee approved a 12% contribution rate for employees in senior vice president positions. All contributions are made on a biweekly basis. Employees cannot contribute to this plan. MEDC made \$1,125,905 in contributions to the 401(a) retirement plan during fiscal year 2015 and was reimbursed approximately \$410,000 of this amount from MSF.

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

For the State Employees' Defined Contribution Retirement Plan, MSF is required to make a contribution of 4% of the annual payroll and to match employee contributions up to 3% of annual covered payroll. MSF's contribution to the plan was \$607,936 in fiscal year 2015.

Other Postemployment Benefits

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

Note 8 Bonds Payable

MSF's bonds payable as of September 30, 2015, consisted of the following bonds issued and outstanding:

- a. Michigan House of Representatives, Anderson House Office Building
MSF issued limited obligation revenue bonds Series 2008A and 2008B in the total amount of \$79,780,000 to acquire ownership in the Anderson House Office Building, located on Capitol Avenue in Lansing, Michigan.

The bonds are secured by and payable from lease payments to be paid by the Michigan House of Representatives under the lease and other revenues and funds pledged under the indenture. The lease is not a general obligation of the issuer or the State. Neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the lease.

The proceeds of the bonds were used, together with other available funds, to (a) acquire an office building containing offices for the members of the House of Representatives and their staff through (i) the defeasance of the prior owner's outstanding Certificates of Participation* and (ii) the discharge of a prior loan, (b) finance the acquisition and construction of improvements to the facilities, and (c) pay costs of issuing and insuring the bonds.

The scheduled payments of principal and interest on the bonds when due are guaranteed under the financial guarantee insurance policy issued concurrently with the delivery of the bonds by Assured Guaranty Corp. The Series A bonds (\$78,650,000) have a maturity schedule starting in fiscal year 2012 and ending in fiscal year 2024 with an interest rate yield in the range of 3.33% to 5.19%. The Series B bonds (\$1,130,000) matured on October 15, 2011, with an interest rate yield of 4.00%.

b. Cadillac Place

MSF issued limited obligation revenue bonds Series 2011 in the total amount of \$119,115,000, of which \$71,235,000 were serial bonds and \$47,880,000 were term bonds, to acquire ownership in the Cadillac Place in Detroit, Michigan. The bonds are secured by and payable from lease payments to be paid by DTMB under the lease and other revenues and funds pledged under the indenture. The lease is not a general obligation of the issuer or of the State. Neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the lease.

The proceeds of the bonds were used, together with other available funds, to (a) acquire an office building containing offices for several State departments and also some private tenants through the defeasance of the prior owner's outstanding Certificates of Participation and (b) pay costs of issuing the bonds.

The serial bonds (\$71,235,000) have a maturity schedule starting in fiscal year 2015 and ending in fiscal year 2027 with an interest rate yield in the range of 2.13% to 5.02%. The term bonds (\$47,880,000) have a maturity schedule starting in fiscal year 2028 and ending in fiscal year 2032 with an interest yield of 5.30%.

c. Michigan Senate Offices Project

MSF issued limited obligation revenue bonds Series 2015A and Series 2015B in the total amount of \$68,465,000 of which \$20,020,000 are serial bonds and \$48,445,000 are term bonds, to finance the project, which includes the costs of acquiring a certain condominium unit in the Capital View Building located at 201 Townsend Street, Lansing, Michigan. The bonds are secured by and payable from lease payments to be paid by the Michigan Senate under the lease and other revenues and funds pledged under the indenture. The lease is not a general obligation of the issuer, the lessee, or the State. Neither the full faith and credit nor the taxing power of the State are pledged to the payments coming due under the lease.

The proceeds of the bonds will be used, together with other available funds, to (a) finance the project, which includes the costs of acquiring a certain condominium unit in the Capital View Building; the installation, renovation, repair, furnishing, and equipping of the unit; and payment of relocation costs; (b) pay capitalized interest on the bonds; (c) fund a debt service reserve for the bonds; and (d) pay certain expenses in connection with the issuance of the bonds.

The Series A serial bonds (\$16,850,000) has a maturity schedule starting in fiscal year 2024 and ending in fiscal year 2036 with an interest rate yield in the range of 2.57% to 3.61%. The Series A term bonds (\$48,445,000) has a maturity schedule starting in fiscal year 2037 and ending in fiscal year 2048 with an interest rate yield in the range of 3.73% to 4.23%. The Series B serial bonds (\$3,440,000) has a maturity schedule starting in fiscal year 2019 and ending in fiscal year 2027 with an interest rate yield in the range of 2.105% to 3.813%.

d. Community Colleges Skilled Trades Equipment Program

MSF issued limited obligation revenue bonds Series 2015 in the total amount of \$40,725,000 to provide funds to finance reimbursement grants awarded to eligible community colleges under the Community Colleges Skilled Trades Equipment Program (CCSTEP). The bonds are secured by and payable from Security, which includes appropriated funds to be paid by the State of Michigan under the reimbursement agreement and other revenues and funds pledged under the indenture. The reimbursement agreement is not a general obligation of the issuer, or the State. Neither the full faith and credit nor the taxing power of the State are pledged to provide the appropriated funds under the reimbursement agreement.

The proceeds of the bonds will be used, together with other available funds, to (a) provide funds to finance reimbursement grants awarded to eligible community colleges under CCSTEP, and (b) pay certain costs associated with the issuance of the bonds.

The serial bonds (\$40,725,000) have a maturity schedule starting in fiscal year 2016 and ending in fiscal year 2027 with an interest rate yield in the range of .43% to 2.92%.

e. Facility for Rare Isotope Beams Project at Michigan State University

MSF issued limited obligation revenue bonds Series 2014 in the total amount of \$82,685,000 to provide a grant to fund the community share portion of the Facility for Rare Isotope Beams on the campus of Michigan State University. The bonds are secured by and payable from Security, which includes appropriated funds to be paid by the State of Michigan under the reimbursement agreement and other revenues and funds pledged under the indenture. The reimbursement agreement is not a general obligation of the issuer, or the State. Neither the full faith and credit nor the taxing power of the State are pledged to provide the appropriated funds under the reimbursement agreement.

The proceeds of the bonds will be used, together with other available funds, to (a) provide a grant to fund the community share portion of the Facility for Rare Isotope Beams, which is a new national user facility for nuclear science to be constructed on the campus of Michigan State University, and (b) pay certain costs associated with the issuance of the bonds.

The serial bonds (\$82,685,000) have a maturity schedule starting in fiscal year 2015 and ending in fiscal year 2031 with an interest rate yield in the range of .18% to 4.13%.

The following table summarizes debt service requirements for all outstanding bonds:

Fiscal Year Ending September 30	Principal	Interest	Total
2016	\$14,395,000	\$18,445,573	\$32,840,573
2017	15,595,000	17,332,126	32,927,126
2018	16,890,000	16,557,651	33,447,651
2019	18,360,000	15,698,858	34,058,858
2020	19,930,000	14,739,270	34,669,270
2021-2025	113,970,000	56,535,756	170,505,756
2026-2030	92,160,000	30,542,299	122,702,299
2031-2035	31,335,000	13,276,088	44,611,088
2036-2040	14,140,000	9,536,188	23,676,188
2041-2045	20,725,000	5,395,138	26,120,138
2046-2048	15,950,000	983,000	16,933,000
Total	<u>\$373,450,000</u>	<u>\$199,041,947</u>	<u>\$572,491,947</u>

Changes in total bonds payable for the fiscal year ended September 30, 2015 were as follows:

	Beginning Balance- Restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable	\$273,395,000	\$109,190,000	\$ 9,135,000	\$373,450,000	\$14,395,000	\$359,055,000
Unamortized premium	\$ 13,952,385	\$ 9,323,296	\$ 1,250,799	\$ 22,024,882		
Total bonds payable	\$287,347,385	\$118,513,296	\$10,385,799	\$395,474,882		
Current portion				\$ 14,395,000		
Long-term portion				\$381,079,882		

Note 9 Limited Obligation Debt - Private Activity Bonds (PABs)

MSF and a predecessor entity (the Michigan Job Development Authority) issued industrial development revenue bonds. In addition, MSF issued bonds under its PAB and Taxable Bond Programs. The bonds issued are payable solely from the net revenues or other funds as described in the bond indentures and are not obligations of MSF or the State of Michigan. After the bonds are issued, all financial activities are assumed by a trustee, depository, or paying agent. Accordingly, these obligations are not reported in the MSF financial statements. Information regarding the status of such bond issues must be obtained from the trustee or depository for bonds, the industrial or commercial enterprise benefited by the bonds, or some other knowledgeable source.

The total amount of PABs issued by MSF and its predecessor entity for the period January 1, 1979 through September 30, 2015 was \$10,276,167,969. The amount of tax-exempt bonds issued during fiscal year 2015 was \$306,258,234. The amount of taxable bonds issued by MSF under the Taxable Bond Program for fiscal year 2015 was \$200,000,000.

Note 10 Other Long-Term Liabilities

The following table summarizes the changes in other long-term liabilities of MSF for the fiscal year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital Access Program	\$ 6,251,986	\$ 581,140	\$ 255,250	\$ 6,577,875	\$272,768
Compensated Absences	\$ 2,099,273	\$1,191,562	\$1,143,149	\$ 2,147,686	\$960,905
Net Pension Liability	\$27,624,790	-	\$2,789,223	\$24,835,567	-

a. Capital Access Program

Liabilities for the Capital Access Program consist of an obligation to reimburse financial institutions for possible future loan defaults on high-risk business loans. An asset for the same amount represents the available cash balance that can be used to reimburse the financial institutions for future loan defaults. Increases in the Capital Access Program liabilities represent fees paid by the financial institution, MSF, and the borrower to fund the program and recoveries of defaulted loans. Reductions are payments to the financial institutions for defaulted loans.

As of September 30, 2015, there were 38 financial institutions participating in the Capital Access Program.

b. Compensated Absences

Liabilities for compensated absences were included in the statement of net position, which is on the accrual basis, and not in the governmental fund balance sheet, which is on the modified accrual basis. 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' annual and banked leave plus the State's share of social security and retirement contributions and a portion of the sick leave, based on the pay rates in effect as of September 30, 2015.

c. Net Pension Liability

Liabilities for the net pension liability were included in the statement of net position, which is on the accrual basis, and not in the governmental fund balance sheet, which is on the modified accrual basis. Additional disclosures describing the net pension liability are provided in Note 7.

Note 11 Fund Balance

Restricted fund balance (in millions) as of September 30, 2015 consists of:

Restricted by enabling legislation:	
Jobs for Michigan Investment Fund	\$355.3
Michigan Film Promotion Fund	88.5
Energy Efficiency and Renewable Energy Revolving Loan Fund	24.2
Other restricted fund balance:	
MBGF - Collateral Deposit	37.6
MBGF - Participation Loan	11.4
SSBCI checking account	30.6
Cadillac Place	.1
Michigan Senate Office Projects	21.5
Community Colleges Skilled Trades Equipment Program	50.5
Facility for Rare Isotope Beams Project	26.2
Debt Service Fund	<u>20.8</u>
Total restricted fund balance	<u>\$666.8</u>

Committed fund balance of \$37,251 represents grant application fees authorized to be collected through MSF's annual appropriations act. Assigned fund balance of \$28,924,643 consists of encumbrances funded with the State General Fund and unspent grant funds. Remaining fund balance is considered unassigned.

REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN STRATEGIC FUND
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation
 For the Fiscal Years Ended September 30, 2015

Budgetary Comparison Schedule (Statutory/Budgetary Basis)	Original Budget	Final Budget	Actual	Variance With Final Budget
Beginning budgetary fund balance	\$ 165,947,929	\$ 165,947,929	\$ 165,947,929	\$ -
Resources (inflows):				
Revenues and other sources:				
Charges for services	\$ 5,500	\$ 5,500	\$ 2,218,901	\$ (2,213,401)
Operating grants and contributions	485,239,700	485,239,700	283,200,576	202,039,124
Payments from the State of Michigan:				
From General Fund	134,384,000	122,384,000	130,002,814	(7,618,814)
From 21st Century Jobs Trust Fund (Note 2)	459,379,294	449,379,294	161,753,007	287,626,287
Other miscellaneous (Note 3)	23,448,255	23,448,255	91,026,161	(67,577,906)
Other financing sources	-	-	118,513,296	(118,513,296)
Total revenues and other sources	<u>\$ 1,102,456,749</u>	<u>\$ 1,080,456,749</u>	<u>\$ 786,714,755</u>	<u>\$ 293,741,994</u>
Total resources available	<u>\$ 1,268,404,678</u>	<u>\$ 1,246,404,678</u>	<u>\$ 952,662,684</u>	<u>\$ 293,741,994</u>
Charges (outflows):				
Expenditures, transfers out, and encumbrances:				
Building & Renovation - Capitalized Purchases	\$ -	\$ -	\$ 41,000,000	\$ (41,000,000)
Community Development Block Grants	49,780,700	49,780,700	34,594,027	15,186,673
Other interest	-	-	15,843,337	(15,843,337)
Debt service principal redemption	-	-	9,135,000	(9,135,000)
Jobs for Michigan Investment Fund - Appropriation Year 2006	25,347,704	25,347,704	4,688,985	20,658,719
Jobs for Michigan Investment Fund - Appropriation Year 2008	1,593,981	1,593,981	391,376	1,202,605
Jobs for Michigan Investment Fund - Appropriation Year 2009	2,345,105	2,345,105	1,246,238	1,098,867
Jobs for Michigan Investment Fund - Appropriation Year 2010	2,664,999	2,664,999	2,050,473	614,526
Jobs for Michigan Investment Fund - Appropriation Year 2011	3,398,767	3,398,767	2,348,159	1,050,608
Jobs for Michigan Investment Fund - Appropriation Year 2012	53,173,438	53,173,438	18,263,986	34,909,453
Jobs for Michigan Investment Fund - Appropriation Year 2013	64,355,459	64,355,459	27,033,850	37,321,609
Jobs for Michigan Investment Fund - Appropriation Year 2014	122,499,841	122,499,841	53,388,296	69,111,545
Jobs for Michigan Investment Fund - Appropriation Year 2015	184,000,000	174,000,000	52,326,644	121,673,356
Jobs for Michigan Investment Fund - Permanent Fund	20,097,476	20,097,476	20,097,476	-
Payments to MEDC:				
Administration	3,131,700	3,131,700	3,131,700	-
Job creation services	14,896,600	14,896,600	14,434,925	461,675
Community Ventures Program	9,800,000	9,800,000	9,800,000	-
Automotive, Engineering and Manufacturing Technology Fund	2,000,000	2,000,000	2,000,000	-
Skilled Trades Training Fund	10,000,000	10,000,000	10,000,000	-
MSF, Special Grants	15,750,000	15,750,000	15,750,000	-
IDRB, MEGA, and tribal gaming revenue (Notes 3)	-	-	25,926,319	(25,926,319)
Michigan Energy Office	4,699,200	4,699,200	2,887,171	1,812,029
Workforce Development Agency	429,709,800	429,709,800	259,947,308	169,762,492
Michigan Film Office and other programs	123,231,420	111,231,420	49,154,798	62,076,622
Arts and Cultural Grants	10,150,000	10,150,000	9,818,671	331,329
Payments to General Fund	-	-	1,428,529	(1,428,529)
Miscellaneous and receivable write-off	2,345,979	2,345,979	11,799,249	(9,453,270)
Total charges	<u>\$ 1,154,972,169</u>	<u>\$ 1,132,972,169</u>	<u>\$ 698,486,516</u>	<u>\$ 434,485,653</u>
Reconciling items:				
Changes in noncurrent assets	\$ 0	\$ (3,001,562)	\$ (3,001,562)	\$ 0
Net reconciling items	<u>\$ 0</u>	<u>\$ (3,001,562)</u>	<u>\$ (3,001,562)</u>	<u>\$ 0</u>
Ending budgetary fund balance	<u>\$ 113,432,509</u>	<u>\$ 110,430,947</u>	<u>\$ 251,174,606</u>	<u>\$ (140,743,659)</u>

This schedule continued on next page.

MICHIGAN STRATEGIC FUND
 Budgetary Comparison Schedule and Budget-to-GAAP Reconciliation
 For the Fiscal Years Ended September 30, 2015
 Continued

<u>Budget-to-GAAP Reconciliation</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Resources (inflows):				
Actual amount (budgetary basis) of "Total resources available"			\$ 952,662,684	
Differences - Budget to GAAP:				
Beginning budgetary fund balance is a budgetary resource but is not a current year revenue for financial reporting purposes			(165,947,929)	
Other financing sources are inflows of budgetary resources but are not revenues for financial reporting purposes			<u>(118,513,296)</u>	
Total revenues (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance			<u>\$ 668,201,458</u>	
Charges (outflows):				
Actual amount (budgetary basis) of "Total charges"			\$ 698,486,516	
Differences - Budget to GAAP:				
Loans and investments are outflows for budgetary reporting purposes but are not expenditures for financial reporting purposes			<u>(40,565,362)</u>	
Total expenditures (GAAP basis) on the statement of revenues, expenditures, and changes in fund balance			<u>\$ 657,921,154</u>	

See accompanying notes to required supplementary information.

Notes to Required Supplementary Information – Budgetary Reporting

Note 1 Statutory Budgetary Presentation

The State of Michigan provides annual legislative appropriations to the Michigan Strategic Fund (MSF) for the Community Development Block Grant (CDBG) Program, the Jobs for Michigan Investment Fund, Workforce Development Agency programs, Michigan Energy Office programs, the Michigan Film Office, Arts and Cultural Grants, and other State programs. The Michigan Economic Development Corporation (MEDC) administers the other State programs. MSF transfers the funding for the State programs to MEDC as required by an interlocal agreement between MSF and MEDC.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue.

The budgetary comparison schedule presents both the original and final appropriated budgets for fiscal year 2015, as well as the actual resource inflows, outflows, and fund balance stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into annual appropriations acts, as amended, for fiscal years 2006 through 2015 and include encumbrances and multi-year projects' budgetary carry-forwards from the prior year.

The budgetary fund balance represents the total fund balance, net of reserves for noncurrent assets. Reserves for noncurrent assets do not represent current financial resources available for appropriations and are not included for budgetary purposes.

Note 2 21st Century Jobs Trust Fund and Jobs for Michigan Investment Fund

The Michigan Legislature passed a series of public acts in 2005 related to securitizing a portion of the tobacco securitization settlement funds and depositing those funds in the 21st Century Jobs Trust Fund. The MSF Act (Act 270, P.A. 1984) was also amended in 2005 to offer programs and provide funding in the form of loans, investments, and grants for competitive edge technology and to diversify the economy. From the inception during fiscal year 2006 through fiscal year 2015, the Legislature has appropriated \$919.5 million from tobacco securitization settlement funds. The funds are retained in the 21st Century Jobs Trust Fund at the Department of Treasury and are reimbursed to MSF as the disbursements are made. In addition to this, starting in fiscal year 2012, funds appropriated from the State General Fund (\$351.5 million) for MSF's Business Attraction and Economic Gardening programs were transferred to the 21st Century Jobs Trust Fund pursuant to Act 252, P.A. 2011.

MSF has received a work project authorization for all 21st Century Jobs Trust Fund related appropriations and is thus permitted to spend unspent appropriations over multiple years. The original budget amounts for appropriation year 2006 through appropriation year 2014 reflect carry-forward of unspent appropriation from these years.

Total charges for fiscal year 2015 were \$181.8 million, of which \$40.2 million was disbursed for investments and loans. Investments and loans are not expenditures for financial reporting purposes and are thus listed as a budget-to-GAAP reconciling item.

MSF received revenue of \$161.7 million from the 21st Century Jobs Trust Fund for fiscal year 2015.

Note 3 Tribal Gaming

The other miscellaneous revenues in the actual column include tribal gaming revenue of \$40.1 million. The payments to MEDC expenditures include a portion of the tribal gaming revenue transferred to MEDC according to the interlocal agreement.

Schedules of Required Supplementary Information – Pension Liability

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

	2015
MSF’S Proportion of the Net Pension Liability	.483 %
MSF’S Proportionate Share of the Net Pension Liability	\$ 24,835,567
MSF’S Covered-Employee Payroll	\$ 12,767,302
MSF’S proportionate share of the net pension liability as a percentage of its covered-employee payroll	194.52 %
Plan fiduciary net position as a percentage of the total pension liability	68.07 %

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

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

**Schedule of MSF’s Contributions
State Employees’ Retirement Plan
Last 10 Fiscal Years***

	2015
Statutorily Required Contribution	\$ 3,211,137
Contributions in relation to the statutorily required contribution	\$ 3,211,137
Contribution deficiency (excess)	-
MSF’s covered-employee payroll	\$ 12,767,302
Contributions as a percentage of covered-employee payroll	25.15 %

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

Notes to Required Supplementary Information – Pension Liability

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

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

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

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

Valuation:

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

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

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

GLOSSARY

Glossary of Abbreviations and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111 th United States Congress in February 2009.
CCSTEP	Community Colleges Skilled Trades Equipment Program
CDBG	Community Development Block Grant.
Certificate of Participation	Financing in which an individual buys a share of the lease revenues of an agreement made by a municipal or governmental entity, rather than the bond being secured by those revenues.
DELEG	Department of Energy, Labor & Economic Growth. Effective April 24, 2011, DELEG became the Department of Licensing and Regulatory Affairs.
DLJ	DLJ MB Advisors, Inc.
DTED	Department of Talent and Economic Development
DTMB	Department of Technology, Management, and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as “accounting principles generally accepted in the United States of America.”
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
IDRB	Industrial development revenue bond.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LBFTA	Land Bank Fast Track Authority.
LARA	Department of Licensing and Regulatory Affairs
MAE	Michigan Agency on Energy
major fund	A significant governmental or enterprise fund, based on specific size criteria. A government's main operating fund (the general fund or its equivalent) is always considered a major fund. Government officials may also designate other governmental and enterprise funds as major funds when deemed important to financial statement users (for example, because of public interest or consistency).
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
MBGF	Michigan Business Growth Fund.
MEDC	Michigan Economic Development Corporation.
MEGA	Michigan Economic Growth Authority.
MEO	Michigan Energy Office
mezzanine fund	A type of investment fund that is primarily engaged in a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. It is generally used as an intermediate stage financing, preceding a company's initial public offering, and is considered less risky than start-up financing.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
MSF	Michigan Strategic Fund.

MSHDA	Michigan State Housing Development Authority.
MTIA	Michigan Talent Investment Agency
private activity bond (PAB)	A category of municipal bonds distinguished from public purpose bonds in the Tax Reform Act of 1986.
private equity fund	A type of investment fund that buys majority interest in companies to restructure their capital, management, and organization. Usually, the companies are privately held for two to five years.
SOMCAFR	State of Michigan Comprehensive Annual Financial Report.
SSBCI	State Small Business Credit Initiative.
UIA	Unemployment Insurance Agency
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
venture capital fund	A type of investment fund that invests in high-risk companies or small companies specializing in new technologies, often in return for an equity position in the firm.
WDA	Workforce Development Agency