# *Michigan Finance Authority*

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

## *Comprehensive Annual Financial Report*

Fiscal Year Ended September 30, 2019

**RACHAEL EUBANKS**
**Chairperson of Board**

**DEBORAH M. ROBERTS**
**Executive Director**

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GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RACHAEL EUBANKS
STATE TREASURER

December 19, 2019

The Honorable Gretchen Whitmer, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the Michigan Finance Authority Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2019.

## INTRODUCTION TO THE REPORT

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

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

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

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

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

Independent Auditors: Plante & Moran, PLLC is the principal auditor of the CAFR. The purpose of Plante Moran's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2019 are free of material misstatements. Plante Moran concluded that the Basic Financial Statements for the fiscal year ended September 30, 2019 are fairly presented in accordance with GAAP and issued unmodified opinions.

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

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

## PROFILE OF THE GOVERNMENT

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

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

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

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

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

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

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

## MAJOR INITIATIVES

The Michigan Finance Authority continues to carry out its mission in assisting school districts, cities and local governments, hospitals, colleges, and access to higher education in fiscal year 2019 by issuing 21 bond and note deals totaling $2.4 billion in order to provide current and future funding for the Authority's various programs.

School Districts: Through its Local Municipalities Subfund, Public School Academy Facilities Fund, and School Loan Revolving Subfund, the Authority issued $312.3 million of bonds, $15.4 million of tax anticipation notes, and $363.3 million of state aid notes for the purpose of assisting school districts and public school academies with specialized financing needs for capital improvements and other projects.

Cities and Local Governments: Through its Local Municipalities Subfund and its State Revolving Subfund, the Authority issued $399.3 million of bonds for the purpose of assisting cities, townships, and local municipalities with specialized financing needs.

Hospitals: Through its Healthcare Finance Fund, the Authority issued $1.3 billion of bonds for the purpose of assisting eligible healthcare providers and facilities with financing for capital improvements.

Colleges: Through its Higher Education Facilities Fund, the Authority issued $51.7 million of bonds for the purpose of assisting eligible higher education institutions within the state with financing for capital improvements.

Michigan Guaranty Agency: Through the Michigan Guaranty Agency, a fiduciary fund, the Authority paid $86.4 million of claims during fiscal year 2019 to qualified lenders for loans guaranteed under the Federal Family Education Loan Program made to qualified students and parents of qualified students in Michigan.

## AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Michigan Finance Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2018. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Sincerely,

Deborah M. Roberts

Deborah M. Roberts
Director, Bureau of State and Authority Finance

Rachael Eubanks

Rachael Eubanks
State Treasurer

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Michigan Finance Authority**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**September 30, 2018**

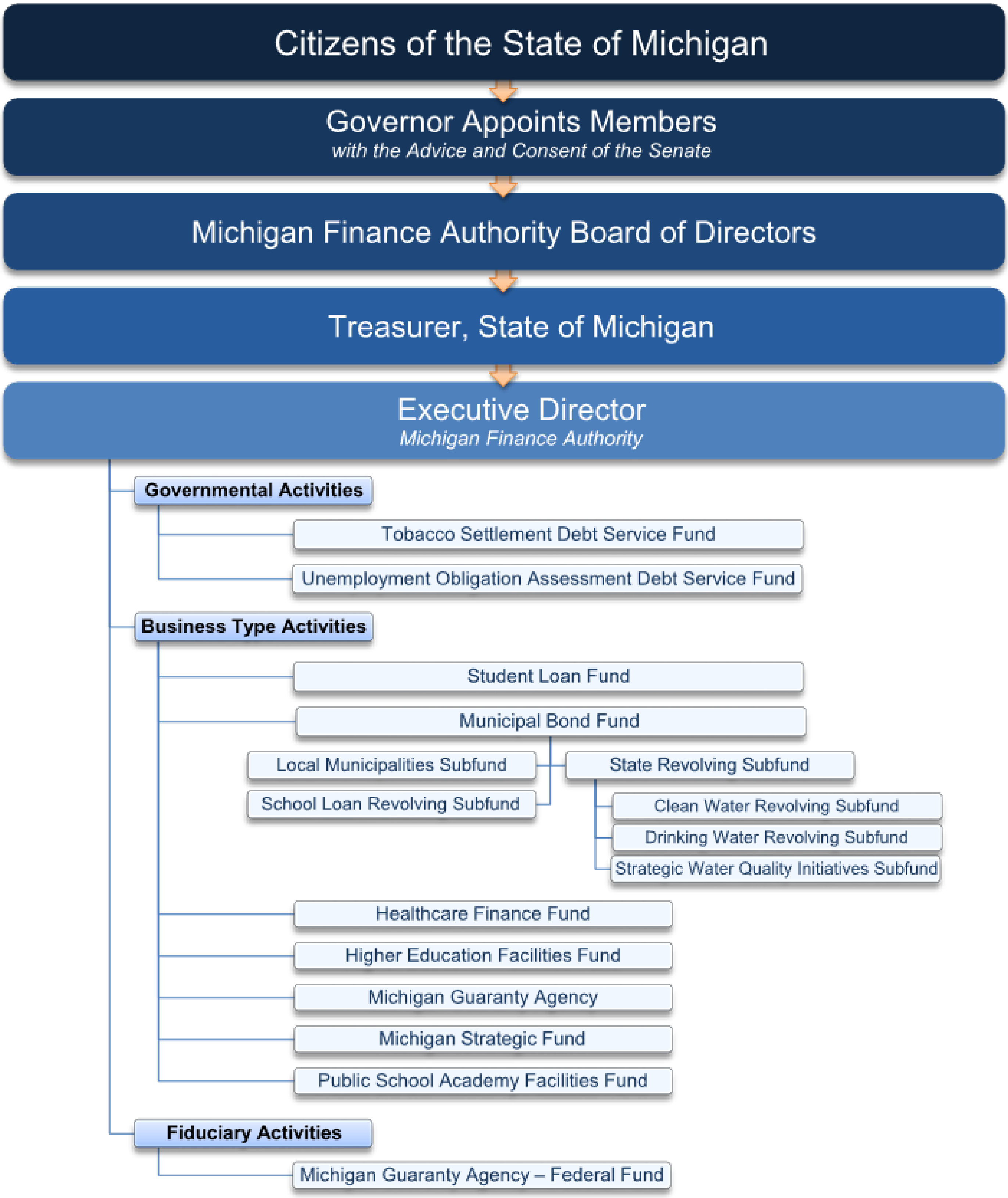
Christopher P. Morrill

Executive Director/CEO

# MICHIGAN FINANCE AUTHORITY

*(A Component Unit of the State of Michigan)*

## ORGANIZATIONAL STRUCTURE



# PRINCIPAL OFFICIALS

# *MICHIGAN FINANCE AUTHORITY BOARD OF DIRECTORS*

(As of September 30, 2019)

**Rachael Eubanks**
State Treasurer
Chair of Board, Michigan Finance Authority

**Joyce Parker**
Deputy State Treasurer
State Treasurer Representative, Michigan Finance Authority

**Deborah M. Roberts**
Director, Bureau of State and Authority Finance
Executive Director, Michigan Finance Authority

## *Board Members*

**Bill Beekman**
Vice President and Director of Athletics
Michigan State University
Term expires: 9/30/2021

**Luke Forrest**
Executive Director, Community Economic Development Association of Michigan
Term expires: 9/30/2020

**Anne E. Heaton**
Vice President of Marketing & Communications, Business Leaders of Michigan
Term expires: 9/30/2022

**Timothy A. Hoffman**
Retired Executive Director of Regulatory Affairs
Term expires: 9/30/2022

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

**Murray D. Wikol**
President and CEO, ProVisions
Term expires: 9/30/2022

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# FINANCIAL SECTION

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plante moran

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East Lansing, MI 48823
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plantemoran.com

**Independent Auditor's Report**

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Michigan Finance Authority's basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

We draw attention to Note 1 to the financial statements, which explains that these financial statements present only the Michigan Finance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan as of September 30, 2019 or the changes in its financial position or, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

***Required Supplemental Information***

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

***Other Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Michigan Finance Authority's basic financial statements. The accompanying supplemental financial statements, supplemental financial schedules, introductory section, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplemental financial statements and supplemental financial schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental financial statements and supplemental financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019 on our consideration of the Michigan Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Finance Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 19, 2019

# Management's Discussion and Analysis

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2019. Please read it with the Authority's financial statements, which follow this section.

## HIGHLIGHTS

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

- The Authority's total net long-term secured debt as of September 30, 2019 was $7,395.7 million, a decrease of $1,039.8 million from the prior year. The decrease represents the net difference between new issuances, debt service payments, and refunding of debt. In addition, the Authority also has $10,068.5 million of conduit debt obligations outstanding as of September 30, 2019. The Authority has limited obligation for the conduit debt, and therefore does not record a liability in the financial statements. During the fiscal year ended September 30, 2019, the Authority issued new and refunding debt of $2.3 billion, of which $1.2 billion was conduit debt obligations and, therefore, was not recorded as debt of the Authority (Notes 8 and 9).

- More detailed information regarding the government-wide, fund-level, and long-term debt activities can be found beginning on page 19.

## Overview of the Financial Statements

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

### Government-Wide Financial Statements

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

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services, grants, and contributions that are restricted to meeting the requirements of a function.

### Fund Financial Statements

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

- *Governmental Funds -* The Authority's major governmental funds include the General Fund, the Tobacco Settlement Debt Service Fund, and the Unemployment Obligation Assessment Debt Service Fund. These funds are reported using the modified accrual basis of accounting, which focuses on near-term (generally 60 days) inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

- *Proprietary Funds -* The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. These funds are reported using the full accrual basis of accounting, which provides short-term and long-term financial information about the activities of the Authority.

- *Fiduciary Fund -* The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using the full accrual basis of accounting. The government-wide financial statements exclude fiduciary fund activities and balances because these assets do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust.

### Additional Required Supplementary Information

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

### Other Supplemental Information

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

# FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The following statement of net position presents the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of September 30, 2019 and September 30, 2018:

## STATEMENT OF NET POSITION

As of September 30
(In Millions)

| | Governmental Activities | | Business-Type Activities | | Total Authority | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Total current assets | $ 298.3 | $ 732.2 | $ 3,986.8 | $ 3,831.9 | $ 4,285.1 | $ 4,564.1 |
| Total non-current assets | 29.5 | 165.7 | 8,233.3 | 8,231.0 | 8,262.8 | 8,396.7 |
| Total assets | $ 327.8 | $ 897.9 | $ 12,220.1 | $12,062.9 | $ 12,547.9 | $ 12,960.8 |
| Deferred outflows of resources | $ 1.1 | $ 1.1 | $ 38.8 | $ 45.2 | $ 39.9 | $ 46.3 |
| Total current liabilities | $ 212.7 | $ 306.2 | $ 1,634.1 | $ 1,046.4 | $ 1,846.8 | $ 1,352.7 |
| Total non-current liabilities | 1,137.8 | 1,632.4 | 6,302.2 | 6,845.6 | 7,440.0 | 8,478.0 |
| Total liabilities | $ 1,350.5 | $ 1,938.6 | $ 7,936.3 | $ 7,892.0 | $ 9,286.8 | $ 9,830.7 |
| Deferred inflows of resources | $ 0.0 | $ 0.0 | $ 4.2 | $ 1.9 | $ 4.2 | $ 1.9 |
| Net position: | | | | | | |
| Restricted | $ 0.0 | $ 0.0 | $ 4,272.9 | $ 4,174.0 | $ 4,272.9 | $ 4,174.0 |
| Unrestricted | (1,021.6) | (1,039.6) | 45.6 | 40.1 | (976.0) | (999.5) |
| Total net position | $ (1,021.6) | $ (1,039.6) | $ 4,318.5 | $ 4,214.1 | $ 3,296.9 | $ 3,174.5 |

The Authority's total current assets decreased by $279.0 million (6.1%) and total noncurrent assets decreased by $133.9 million (1.6%) during the fiscal year 2019. The decrease in total current assets and noncurrent assets was due primarily to a reduction in the Receivable from the primary government from payments received from Labor and Economic Opportunity (LEO) for Unemployment Obligation Assessment collections.

The governmental activities total current assets decreased by $433.9 million (59.3%) and total noncurrent assets decreased by $136.2 million (82.2%). The decrease in current assets was due to the decrease in investments on hand in the Unemployment Obligation Assessment Debt Service Fund that was used for debt service in fiscal year 2019. The decrease in current and noncurrent assets was due to a decrease in the Receivable from the State of Michigan from payments received from LEO for Unemployment Obligation Assessment collections.

The business-type activities total current assets increased by $155.0 million (4.0%) primarily from the increased investment on hand in the Municipal Bond Fund-State Revolving Subfund. The business-type activities total noncurrent assets increased by $2.3 million (0.0%), the consistency primarily due to comparable noncurrent asset balances held on the balance sheet from the previous year.

The Authority's total current liabilities increased by $494.1 million (36.5%) and total noncurrent liabilities decreased by $1,038.1 million (12.2%) during fiscal year 2019. This increase in current and decrease in non-current liabilities was primarily caused by an increase and a decrease in the debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b.

The governmental activities total current liabilities decreased by $93.5 million (30.5%). This decrease in total current liabilities was primarily caused by a decrease in the current debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b. The governmental activities total noncurrent liabilities decreased by $494.7 million (30.3%) primarily from using the funds received from the LEO to pay down the Unemployment Obligation Assessment Revenue Bonds during the fiscal year.

The business-type activities total current liabilities increased by $587.6 million (56.2%). This increase in current liabilities was primarily caused by an increase in the current debt service requirements of the Authority compared to the prior year. Annual debt service requirements, by year, are disclosed in Note 8 – Bonds and Notes Payable, Net, section b. The business-type activities total noncurrent liabilities decreased by $543.5 million (7.9%) primarily due to School Loan Revolving Subfund demand bonds debt service requirements under the irrevocable letters of credit within the fund.

The Authority's net position in unrestricted net assets of negative $976.1 million as of September 30, 2019 is the result of the Authority recording liabilities for the entire amount of outstanding bonds for its tobacco settlement bonds. The tobacco settlement bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts; however, accounting principles preclude the Authority from recording the total anticipated receipts of these proceeds (Receivable – Tobacco Settlement Revenue) because the underlying economic events have not yet occurred for future years.

The Authority's net position in restricted net assets of $4,272.9 million as of September 30, 2019 represents resources that can be used only in accordance with external restrictions or enabling legislation. This is an overall improvement in financial position compared to the prior year.

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

## CHANGES IN NET POSITION
For the Fiscal Years Ended September 30

(In Millions)

| | Governmental Activities | | Business-Type Activities | | Total Authority | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $90.6 | $118.6 | $325.0 | $305.1 | $415.6 | $423.7 |
| Operating grants and contributions | 11.1 | 5.4 | 163.7 | 237.3 | 174.8 | 242.7 |
| Total revenues | $101.7 | $124.0 | $ 488.7 | $ 542.4 | $ 590.4 | $ 666.4 |
| Expenses | | | | | | |
| Total expenses | 83.7 | 93.7 | 384.4 | 482.6 | 468.0 | 576.3 |
| Increase (Decrease) in net position | $18.0 | $30.3 | $104.3 | $59.8 | $122.4 | $90.1 |
| Net position - Beginning of fiscal year | (1,039.6) | (1,069.9) | 4,214.2 | 4,154.4* | 3,174.5 | 3,084.4* |
| Net position - End of fiscal year | $(1,021.6) | $(1,039.6) | $4,318.5 | $4,214.2 | $3,296.9 | $3,174.5 |

*Restated for 2018 related to GASB 75.

The Authority's total revenue for fiscal year 2019 decreased by $76.1 million (11.4%) over the prior year, primarily as a result of decreased operating subsidies received in the Municipal Bond Fund. Operating Subsidies represent resources for current and future use to administer the programs.

The Authority's total expenses in fiscal year 2019 decreased by $108.3 million (18.8%) from fiscal year 2018 expenses, primarily from a decrease in operating and non-operating expenses in the Student Loan Operating Fund as well as the Non-Major Funds.

# FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS

### General Fund
The General Fund accounts for the administrative expenditures for the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt Service Fund. General Fund total assets, which are all current as of September 30, 2019, increased by $132,000 (5.7%) primarily because administrative program fees exceeded administrative expenditures. General Fund revenues increased by $26,000 (5.9%), primarily because the scheduled allocation of resources available for administrative expenditures increased from the prior fiscal year.

General Fund total liabilities, which are all current, increased by $11,000 (3.7%) as a result of economics and administrative expenditures that were payable at the balance sheet date. Payroll and administrative overhead allocations to the General Fund are calculated once per year at year-end and therefore payable at the balance sheet date.

Other administrative expenditures increased by $20,000 (6.0%) when compared to the prior fiscal year because of an increase in the costs allocated to the General Fund for MFA employee time, support activities, and legal and audit fees needed to administer the funds during fiscal year 2019.

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

### Tobacco Settlement Debt Service Fund

Tobacco Settlement Debt Service Fund total current assets increased $36.0 million (39.6%) as a result of an increase in the current investments at year-end. Total noncurrent assets decreased by $37.0 million (55.6%) as a result of a decrease in noncurrent investments during fiscal year 2019.

Tobacco Settlement Debt Service Fund revenues increased by $2.3 million (3.2%) and expenditures increased by $3.1 million (4.1%). All TSR collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA.

### Unemployment Obligation Assessment Debt Service Fund

Unemployment Obligation Assessment Debt Service Fund total current assets decreased by $461.7 million (73.3%) and total noncurrent assets decreased by $99.2 million (100%) during fiscal year 2019. The overall decrease was due primarily to the decrease in the receivable due from the State of Michigan for revenue collections received during the fiscal year. The Fund had no liabilities on September 30, 2019.

Unemployment Obligation Assessment Debt Service Fund revenues decreased by $22.0 million (40.1%) because the fund only recognizes revenue for interest income from the State and all other transfers from LEO are a reduction in the receivable from primary government when received with no revenue component. Expenditures in fiscal year 2019 increased by $81.3 million (15.9%) compared to expenditures in fiscal year 2018. Expenditures are driven based on resources on hand prior to scheduled redemption dates on the bonds for payment of principal and interest on debt service.

### Municipal Bond Fund

Municipal Bond Fund total current assets increased by $131.3 million (3.7%) and total noncurrent assets increased by $99.5 million (1.3%) during fiscal year 2019. The increase in total current assets was due from an increase in current investments. The increase in total noncurrent assets was primarily due to the increase in Receivables from the State of Michigan in the School Loan Revolving Subfund from school districts increased loan balances.

Total current liabilities increased by $596.9 million (63.1%) and total noncurrent liabilities decreased by $467.5 million (7.4%). The current and noncurrent liabilities increase and decrease is primarily due to School Loan Revolving Subfund demand bonds debt service requirements under the irrevocable letters of credit within the fund.

Municipal Bond Fund operating revenues increased by $54.7 million (17.3%) during fiscal year 2019. This increase was primarily a result of an increase in investment income and interest revenue during the fiscal year. Operating expenses increased by $19.4 million (7.9%) in fiscal year 2019 primarily because an increase in interest expense due to increase in debt service requirements on bond issues.

Municipal Bond Fund nonoperating revenues and expenses, net, decreased by $90.6 million (115.0%) primarily as a result of a decrease in operating subsidies received during the fiscal year. Operating Subsidies represent resources for current and future use to administer the programs.

### Student Loan Fund

Student Loan Fund total current assets increased by $17.6 million (9.1%) of which cash and cash equivalents increased by $6.2 million (15.7%) and total noncurrent assets decreased by $88.7 million (18.4%). The net decrease is primarily from the net redemption of $80.2 million of notes and bonds. The decrease is offset by the receipts from student loan payments of $88.4 million and the net purchase of investments of $2.1 million.

Loans receivable decreased by $81.5 million because new loans have not been originated since June 30, 2010, $.3 million of loans receivable were written off because of loan defaults, and $88.4 million of student loan principal has been paid during the fiscal year.

Student Loan Fund total current liabilities decreased by $3.0 million (4.3%) and total noncurrent liabilities decreased by $76.5 million (15.7%) primarily due to mandatory redemptions of bonds and notes totaling $80.2 million. In addition, pension liabilities increased by $.3 million (17.7%) and OPEB liabilities decreased by $91 thousand (3.1%). Accounts payable and other liabilities decreased by $.2 million due to decrease in expenses pertaining to student loans, bonds and notes payable. Arbitrage payable increased by $1.9 million (8.6%).

The Student Loan Fund interest revenue decrease of $3.2 million (12.2%) was primarily attributable to the decrease of the student loan portfolio. The provision of loan loss totaled $.3 million, a decrease of 81.6%.

In fiscal year 2019, Student Loan Fund operating expenses increased by $1.5 million (6.7%) primarily due to the $1.9 million increase in arbitrage expense. Administrative expenses decreased by $.6 million primarily due to a decrease of the student loan portfolio and decrease in administrative overhead.

## Contacting the Michigan Finance Authority

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

The contact information for the Authority is:

Michigan Finance Authority
Richard H. Austin Building
430 West Allegan
Lansing, MI 48922

Phone (517) 335-0994

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# BASIC FINANCIAL STATEMENTS

# STATEMENT OF NET POSITION

September 30, 2019

| | Governmental Activities | Business-Type Activities | Totals |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 3) | $ | $ 1,198,364,458 | $ 1,198,364,458 |
| Receivable - Tobacco settlement revenue | 55,611,662 | | 55,611,662 |
| Receivable from federal government | | 788,123 | 788,123 |
| Receivable from State of Michigan (Note 4) | 84,522,475 | | 84,522,475 |
| Receivable from other funds | | 1,772,944 | 1,772,944 |
| Interest receivable | 400,676 | 81,413,962 | 81,814,638 |
| Investments (Note 3) | 157,734,714 | 1,764,442,325 | 1,922,177,039 |
| Notes receivable (Note 5) | | 371,025,373 | 371,025,373 |
| Loans receivable, net (Note 6) | | 286,063,280 | 286,063,280 |
| Bonds receivable (Note 7) | | 282,391,000 | 282,391,000 |
| Other current assets | | 581,148 | 581,148 |
| Total current assets | $ 298,269,527 | $ 3,986,842,613 | $ 4,285,112,140 |
| Noncurrent assets: | | | |
| Receivable from State of Michigan (Note 4) | $ | $ 1,269,167,427 | $ 1,269,167,427 |
| Investments (Note 3) | 29,553,316 | 462,859,953 | 492,413,269 |
| Notes receivable (Note 5) | | 18,000,000 | 18,000,000 |
| Loans receivable, net (Note 6) | | 2,360,710,731 | 2,360,710,731 |
| Bonds receivable (Note 7) | | 4,122,538,863 | 4,122,538,863 |
| Total noncurrent assets | $ 29,553,316 | $ 8,233,276,974 | $ 8,262,830,290 |
| Total assets | $ 327,822,843 | $ 12,220,119,587 | $ 12,547,942,430 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred loss on refunding (Note 1) | $ 1,066,255 | $ 36,049,552 | $ 37,115,807 |
| Deferred outflows related to pensions (Note 13) | | 727,241 | 727,241 |
| Deferred outflows related to OPEB (Note 14) | | 2,041,350 | 2,041,350 |
| Total deferred outflows of resources | $ 1,066,255 | $ 38,818,143 | $ 39,884,398 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable and other liabilities | $ 297,994 | $ 55,004,736 | $ 55,302,730 |
| Bonds and notes payable, net (Note 8) | 193,534,127 | 1,475,877,443 | 1,669,411,570 |
| Interest payable | 18,911,915 | 97,251,503 | 116,163,418 |
| Unearned revenue | | 5,000,000 | 5,000,000 |
| Arbitrage payable | | 949,198 | 949,198 |
| Total current liabilities | $ 212,744,036 | $ 1,634,082,880 | $ 1,846,826,916 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net (Note 8) | $ 1,137,745,966 | $ 6,258,000,408 | $ 7,395,746,374 |
| Arbitrage payable | | 24,005,309 | 24,005,309 |
| Compensated absences | 24,121 | 457,284 | 481,405 |
| Net pension liability (Note 13) | | 7,874,841 | 7,874,841 |
| Net OPEB liability (Note 14) | | 11,839,120 | 11,839,120 |
| Total noncurrent liabilities | $ 1,137,770,087 | $ 6,302,176,962 | $ 7,439,947,049 |
| Total liabilities | $ 1,350,514,123 | $ 7,936,259,842 | $ 9,286,773,965 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred gain on refunding (Note 1) | $ | $ 1,974,855 | $ 1,974,855 |
| Deferred inflows related to pensions (Note 13) | | 672,790 | 672,790 |
| Deferred inflows related to OPEB (Note 14) | | 1,555,188 | 1,555,188 |
| Total deferred inflows of resources | $ 0 | $ 4,202,833 | $ 4,202,833 |
| **NET POSITION** | | | |
| Restricted for (Note 1): | | | |
| Municipal bond fund | $ | $ 4,142,365,106 | $ 4,142,365,106 |
| Student loan fund | | 63,707,633 | 63,707,633 |
| Other purposes | | 66,840,575 | 66,840,575 |
| Unrestricted (deficit) (Note 2) | (1,021,625,025) | 45,561,741 | (976,063,284) |
| Total net position | $ (1,021,625,025) | $ 4,318,475,055 | $ 3,296,850,030 |

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

## Statement of Activities
For the Fiscal Year Ended September 30, 2019

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expenses) Revenues and Change in Net Position: Governmental Activities | Net (Expenses) Revenues and Change in Net Position: Business-Type Activities | Total |
|---|---|---|---|---|---|---|
| Governmental Activities: | | | | | | |
| Tobacco Settlement | $ 82,139,375 | $ 69,932,847 | $ 7,162,408 | $ (5,044,120) | $ | $ (5,044,120) |
| Unemployment Obligation | 1,533,613 | 20,655,457 | 3,936,120 | 23,057,964 | | 23,057,964 |
| Total Governmental Activities | $ 83,672,988 | $ 90,588,304 | $ 11,098,528 | $ 18,013,844 | $ 0 | $ 18,013,844 |
| Business-Type Activities: | | | | | | |
| Municipal Bond Fund | $ 345,841,024 | $ 283,986,079 | $ 155,290,428 | $ | $ 93,435,483 | $ 93,435,483 |
| Student Loan Fund | 23,302,229 | 26,709,387 | 4,497,479 | | 7,904,637 | 7,904,637 |
| Non-Major Funds | | | | | | |
| Michigan Guaranty Agency - Operating Fund | 12,137,592 | 12,246,881 | 2,946,321 | | 3,055,610 | 3,055,610 |
| Michigan Finance Authority - Operating Fund | 2,232,747 | 1,220,855 | 744,283 | | (267,609) | (267,609) |
| Public School Academy Facilities Fund | 841,466 | 842,541 | 190,182 | | 191,257 | 191,257 |
| Total Business-Type Activities | $ 384,355,058 | $ 325,005,743 | $ 163,668,693 | $ 0 | $ 104,319,378 | $ 104,319,378 |
| Total Michigan Finance Authority | $ 468,028,046 | $ 415,594,047 | $ 174,767,221 | $ 18,013,844 | $ 104,319,378 | $ 122,333,222 |
| | | Change in Net Position | | $ 18,013,844 | $ 104,319,378 | $ 122,333,222 |
| | | Net Position-beginning | | (1,039,638,869) | 4,214,155,677 | 3,174,516,808 |
| | | Net Position-ending | | $ (1,021,625,025) | $ 4,318,475,055 | $ 3,296,850,030 |

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

# GOVERNMENTAL FUNDS
# BALANCE SHEET
September 30, 2019

| | Major Funds | | | |
|---|---|---|---|---|
| | General Fund | Tobacco Settlement Debt Service Fund | Unemployment Obligation Assessment Debt Service Fund | Totals |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Receivable - Tobacco settlement revenue | $ 333,821 | $ 55,277,841 | $ | $ 55,611,662 |
| Receivable from State of Michigan (Note 4) | | | 83,771,806 | 83,771,806 |
| Interest receivable | | 400,676 | | 400,676 |
| Investments (Note 3) | 2,119,968 | 71,236,552 | 84,378,194 | 157,734,714 |
| Total current assets | $ 2,453,789 | $ 126,915,069 | $ 168,150,000 | $ 297,518,858 |
| Noncurrent assets: | | | | |
| Receivable from State of Michigan (Note 4) | $ | $ | $ | $ 0 |
| Investments (Note 3) | | 29,553,316 | | 29,553,316 |
| Total noncurrent assets | $ 0 | $ 29,553,316 | $ 0 | $ 29,553,316 |
| Total assets | $ 2,453,789 | $ 156,468,385 | $ 168,150,000 | $ 327,072,174 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | $ 0 |
| Total assets and deferred outflows of resources | $ 2,453,789 | $ 156,468,385 | $ 168,150,000 | $ 327,072,174 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and other liabilities | $ 297,996 | $ | $ | $ 297,996 |
| Total current liabilities | $ 297,996 | $ 0 | $ 0 | $ 297,996 |
| Total liabilities | $ 297,996 | $ 0 | $ 0 | $ 297,996 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Unavailable revenue (Note 1) | $ 333,821 | $ 55,277,841 | $ 0 | $ 55,611,662 |
| **FUND BALANCE** | | | | |
| Fund balance: | | | | |
| Restricted for debt service | $ | $ 101,190,544 | $ 168,150,000 | $ 269,340,544 |
| Restricted for administrative expenditures | 1,821,972 | | | 1,821,972 |
| Total fund balance | $ 1,821,972 | $ 101,190,544 | $ 168,150,000 | $ 271,162,516 |
| Total liabilities, deferred inflows of resources, and fund balance | $ 2,453,789 | $ 156,468,385 | $ 168,150,000 | $ 327,072,174 |

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

## Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position

September 30, 2019

| | | |
|---|---|---|
| Total fund balances for governmental funds | $ | 271,162,516 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| **Deferred loss on refunding** is the difference between the carrying value of refunded bonds and their reacquisition price, which is recognized as an expenditure in the governmental fund when the bonds are refunded, whereas the loss is amortized and expensed over the shorter of the life of the refunded or refunding bonds in the statement of activities. | | 1,066,255 |
| **Interest payable** on bonds is not due and payable in the current period and therefore is not reported in the governmental funds, whereas a liability is established for bond interest when incurred in the statement of net position. | | (18,911,915) |
| **Interest receivable** from the State of Michigan on the unemployment bonds that corresponds to the interest payable that is not due in the current period and therefore is not reported in the governmental funds, whereas a receivable is established for accrued interest when earned in the statement of net position. | | 750,671 |
| **Bonds payable** are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability for the bonds is established when the bonds are issued in the statement of net position. | | (1,331,280,093) |
| **Unavailable revenue** is recorded in governmental funds for tobacco settlement revenue that has been earned but is not available, whereas revenue is recognized when earned in the statement of net position. | | 55,611,662 |
| **Compensated absences payable** are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability is established for absences when earned in the statement of net position. | | (24,121) |
| Net position (deficit) | $ | (1,021,625,025) |

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

## GOVERNMENTAL FUNDS
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended September 30, 2019

| | Major Funds | | | |
|---|---|---|---|---|
| | General Fund | Tobacco Settlement Debt Service Fund | Unemployment Obligation Assessment Debt Service Fund | Totals |
| **REVENUES** | | | | |
| Tobacco settlement revenue | $ 432,130 | $ 69,660,819 | $ | $ 70,092,949 |
| Unemployment obligation assessment revenue | | | 28,971,863 | 28,971,863 |
| Investment income | 40,091 | 7,127,455 | 3,930,982 | 11,098,528 |
| Total revenues | $ 472,221 | $ 76,788,274 | $ 32,902,845 | $ 110,163,340 |
| **EXPENDITURES** | | | | |
| Interest and principal on bonds and notes | $ | $ 77,645,472 | $ 593,807,720 | $ 671,453,192 |
| Other administrative expenditures | 360,360 | | | 360,360 |
| Total expenditures | $ 360,360 | $ 77,645,472 | $ 593,807,720 | $ 671,813,552 |
| Excess of revenues over (under) expenditures | $ 111,861 | $ (857,198) | $ (560,904,875) | $ (561,650,212) |
| Change in fund balance | $ 111,861 | $ (857,198) | $ (560,904,875) | $ (561,650,212) |
| Fund balance - Beginning of fiscal year | 1,710,111 | 102,047,742 | 729,054,875 | 832,812,728 |
| Fund balance - End of fiscal year | $ 1,821,972 | $ 101,190,544 | $ 168,150,000 | $ 271,162,516 |

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

## Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds to the Statement of Activities

For the Fiscal Year Ended September 30, 2019

| | | |
|---|---|---|
| Net change in fund balance - Total governmental funds | $ | (561,650,212) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| **Tobacco settlement revenue** is not recognized as revenue until earned and available by governmental funds and is recorded as deferred inflows of resources. Revenue is recognized when earned in the statement of activities. | | (160,103) |
| **Accrued interest revenue** payable from the primary government does not provide current financial resources for governmental funds because the revenue is not available, whereas interest revenue is recognized when earned for the statement of activities. | | (8,316,405) |
| **Bond proceeds and principal payments** - Bond proceeds are current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Bond proceeds are increased/decreased for bond premiums/discounts when bonds are issued, whereas the premiums/discounts are amortized and expensed over the life of the bonds in the statement of activities. | | |
| Repayment of bond principal | | 582,185,000 |
| Amortization of bond premiums | | 23,586,703 |
| Amortization of bond discounts | | (327,601) |
| **Bond interest** is recognized as an expenditure when due and payable by governmental funds, whereas it is expensed when incurred for the statement of activities. | | (17,300,986) |
| **Compensated absences** are recorded as expenditures in governmental funds when due and payable, whereas they are accrued and expensed when these absences are earned in the statement of activities. | | (2,552) |
| Net change in net position | $ | 18,013,844 |

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

## PROPRIETARY FUNDS
## STATEMENT OF NET POSITION
September 30, 2019

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Major Funds | | | |
| | Municipal Bond Fund | Student Loan Fund | Non-Major Funds | Totals |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 3) | $ 1,127,902,634 | $ 46,072,898 | $ 24,388,926 | $ 1,198,364,458 |
| Receivable from federal government | 281,329 | 315,749 | 191,045 | 788,123 |
| Receivable from other funds | | | 1,772,944 | 1,772,944 |
| Interest receivable | 64,939,976 | 15,801,707 | 672,279 | 81,413,962 |
| Investments (Note 3) | 1,654,463,254 | 81,122,790 | 28,856,281 | 1,764,442,325 |
| Notes receivable (Note 5) | 348,876,373 | | 22,149,000 | 371,025,373 |
| Loans receivable, net (Note 6) | 217,624,419 | 68,438,861 | | 286,063,280 |
| Bonds receivable (Note 7) | 282,391,000 | | | 282,391,000 |
| Other current assets | | 6,716 | 574,432 | 581,148 |
| Total current assets | $ 3,696,478,985 | $ 211,758,721 | $ 78,604,907 | $ 3,986,842,613 |
| Noncurrent assets: | | | | |
| Receivable from State of Michigan (Note 4) | $ 1,269,167,427 | $ | $ | $ 1,269,167,427 |
| Investments (Note 3) | 407,274,403 | 18,997,253 | 36,588,297 | 462,859,953 |
| Notes receivable (Note 5) | | 18,000,000 | | 18,000,000 |
| Loans receivable, net (Note 6) | 2,003,075,124 | 357,635,607 | | 2,360,710,731 |
| Bonds receivable (Note 7) | 4,122,538,863 | | | 4,122,538,863 |
| Total noncurrent assets | $ 7,802,055,817 | $ 394,632,860 | $ 36,588,297 | $ 8,233,276,974 |
| Total assets | $ 11,498,534,802 | $ 606,391,581 | $ 115,193,204 | $ 12,220,119,587 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred loss on refunding (Note 1) | $ 34,193,312 | $ 1,856,240 | $ | $ 36,049,552 |
| Deferred outflows related to pensions (Note 13) | | 205,169 | 522,072 | 727,241 |
| Deferred outflows related to OPEB (Note 14) | | 489,923 | 1,551,427 | 2,041,350 |
| Total deferred outflows of resources | $ 34,193,312 | $ 2,551,332 | $ 2,073,499 | $ 38,818,143 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and other liabilities | $ 54,185,696 | $ 818,810 | $ 230 | $ 55,004,736 |
| Bonds and notes payable, net (Note 8) | 1,388,126,202 | 63,145,341 | 24,605,900 | 1,475,877,443 |
| Interest payable | 94,645,007 | 2,587,690 | 18,806 | 97,251,503 |
| Unearned revenue | 5,000,000 | | | 5,000,000 |
| Arbitrage payable | 949,198 | | | 949,198 |
| Total current liabilities | $ 1,542,906,103 | $ 66,551,841 | $ 24,624,936 | $ 1,634,082,880 |
| Noncurrent liabilities: | | | | |
| Bonds and notes payable, net (Note 8) | $ 5,876,418,951 | $ 381,581,457 | $ | $ 6,258,000,408 |
| Arbitrage payable | 105,466 | 23,899,843 | | 24,005,309 |
| Compensated absences | | 112,600 | 344,684 | 457,284 |
| Net pension liability (Note 13) | | 1,876,862 | 5,997,979 | 7,874,841 |
| Net OPEB liability (Note 14) | | 2,841,389 | 8,997,731 | 11,839,120 |
| Total noncurrent liabilities | $ 5,876,524,417 | $ 410,312,151 | $ 15,340,394 | $ 6,302,176,962 |
| Total liabilities | $ 7,419,430,520 | $ 476,863,992 | $ 39,965,330 | $ 7,936,259,842 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred gain on refunding (Note 1) | $ 1,974,855 | $ | $ | $ 1,974,855 |
| Deferred inflows related to pensions (Note 13) | | 161,344 | 511,446 | 672,790 |
| Deferred inflows related to OPEB (Note 14) | | 373,244 | 1,181,944 | 1,555,188 |
| Total deferred inflows of resources | $ 1,974,855 | $ 534,588 | $ 1,693,390 | $ 4,202,833 |
| **NET POSITION** | | | | |
| Restricted for (Note 1): | | | | |
| State Revolving Subfund | $ 2,730,700,847 | $ | $ | $ 2,730,700,847 |
| Strategic Water Quality Initiatives Subfund | 49,605,105 | | | 49,605,105 |
| School Loan Revolving Subfund | 1,362,059,154 | | | 1,362,059,154 |
| Student Loan Fund | | 63,707,633 | | 63,707,633 |
| Michigan Guaranty Agency - Operating Fund | | | 64,375,421 | 64,375,421 |
| Public School Academy Facilities Fund | | | 2,465,154 | 2,465,154 |
| Unrestricted | (31,042,367) | 67,836,700 | 8,767,408 | 45,561,741 |
| Total net position | $ 4,111,322,739 | $ 131,544,333 | $ 75,607,983 | $ 4,318,475,055 |

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

## PROPRIETARY FUNDS
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2019

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Major Funds | | | |
| | Municipal Bond Fund | Student Loan Fund | Non-Major Funds | Totals |
| **OPERATING REVENUES** | | | | |
| Federal revenue, net of special allowance (Notes 1 and 11) | $ 607,885 | $ 7,615 | $ 10,759,222 | $ 11,374,722 |
| Interest revenue | 283,617,602 | 23,091,774 | 842,541 | 307,551,917 |
| Provision for loan losses | | (295,651) | | (295,651) |
| Investment income | 86,859,333 | 4,497,479 | 3,880,786 | 95,237,598 |
| Fees | | | 1,556,408 | 1,556,408 |
| Miscellaneous | 368,477 | 3,905,649 | 1,152,106 | 5,426,232 |
| Total operating revenues | $ 371,453,297 | $ 31,206,866 | $ 18,191,063 | $ 420,851,226 |
| **OPERATING EXPENSES** | | | | |
| Arbitrage expense | $ 1,290 | $ 1,899,862 | $ | $ 1,901,152 |
| Interest expense | 253,922,863 | 15,823,322 | 545,816 | 270,292,001 |
| Debt issuance costs | 6,380,479 | 0 | 233,850 | 6,614,329 |
| Other administrative expense | 5,866,888 | 5,579,045 | 14,432,139 | 25,878,072 |
| Total operating expenses | $ 266,171,520 | $ 23,302,229 | $ 15,211,805 | $ 304,685,554 |
| Operating income | $ 105,281,777 | $ 7,904,637 | $ 2,979,258 | $ 116,165,672 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Operating subsidies | $ 67,823,210 | $ | $ | $ 67,823,210 |
| Program principal forgiveness, net | (9,304,720) | | | (9,304,720) |
| Grant expense | (70,364,784) | | | (70,364,784) |
| Total nonoperating revenues (expenses) | $ (11,846,294) | $ 0 | $ 0 | $ (11,846,294) |
| Income before transfers | $ 93,435,483 | $ 7,904,637 | $ 2,979,258 | $ 104,319,378 |
| **TRANSFERS** | | | | |
| Transfers from other funds | $ | $ | $ 51,584 | $ 51,584 |
| Transfers to other funds | (33,216) | | (18,368) | (51,584) |
| Total transfers | $ (33,216) | $ 0 | $ 33,216 | $ 0 |
| Change in net position | $ 93,402,267 | $ 7,904,637 | $ 3,012,474 | $ 104,319,378 |
| Net position - Beginning of fiscal year | 4,017,920,472 | 123,639,696 | 72,595,509 | 4,214,155,677 |
| Net position - End of fiscal year | $ 4,111,322,739 | $ 131,544,333 | $ 75,607,983 | $ 4,318,475,055 |

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

## PROPRIETARY FUNDS
## STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2019

| | Business-Type Activities | | | |
|---|---|---|---|---|
| | Major Funds | | | |
| | Municipal Bond Fund | Student Loan Fund | Non - Major Funds | Totals |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Bonds, notes, and loans receivable made | $(1,146,221,426) | $ | $ (24,984,000) | $(1,171,205,426) |
| Principal received on bonds, notes, and loans | 969,745,569 | 88,363,973 | 30,194,000 | 1,088,303,542 |
| Interest received on bonds, notes, and loans | 292,971,789 | 18,482,591 | 868,629 | 312,323,009 |
| Cash payments to employees and suppliers for goods and services | (6,542,197) | (6,720,873) | (13,583,362) | (26,846,432) |
| Net special allowance payment to federal government | | (1,520,060) | | (1,520,060) |
| Other operating revenues | 889,603 | 3,447,892 | 13,863,040 | 18,200,535 |
| Net cash provided by operating activities | $ 110,843,338 | $ 102,053,523 | $ 6,358,307 | $ 219,255,168 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Proceeds from sale of bonds and notes, net | $ 1,036,246,716 | $ | $ 24,605,900 | $ 1,060,852,616 |
| Payment of debt issuance costs | (3,314,178) | | (235,150) | (3,549,328) |
| Principal paid on bonds and notes | (879,631,222) | (80,167,000) | (30,490,000) | (990,288,222) |
| Interest paid on bonds and notes | (295,970,010) | (16,717,654) | (568,265) | (313,255,929) |
| Operating subsidies | 69,548,010 | | | 69,548,010 |
| Grant expense | (79,669,504) | | | (79,669,504) |
| Receipts for future payment of debt service | 18,527,337 | | | 18,527,337 |
| Transfers | (33,216) | | 33,216 | 0 |
| Net cash used in noncapital financing activities | $ (134,296,067) | $ (96,884,654) | $ (6,654,299) | $ (237,835,020) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | $ (543,736,789) | $ (56,310,792) | $ (25,630,365) | $ (625,677,946) |
| Proceeds from sale and maturities of investments | 352,373,935 | 54,228,812 | 36,280,000 | 442,882,747 |
| Net proceeds from (purchases of) sale and maturity of money market funds | 45,042,008 | | (1,573,558) | 43,468,450 |
| Interest and dividends on investments | 81,664,633 | 3,155,355 | 2,393,632 | 87,213,620 |
| Net cash (used in) provided by investing activities | $ (64,656,213) | $ 1,073,375 | $ 11,469,709 | $ (52,113,129) |
| Net (decrease) increase in cash | $ (88,108,942) | $ 6,242,244 | $ 11,173,717 | $ (70,692,981) |
| Cash and cash equivalents - Beginning of fiscal year | 1,216,011,576 | 39,830,654 | 13,215,209 | 1,269,057,439 |
| Cash and cash equivalents - End of fiscal year | $ 1,127,902,634 | $ 46,072,898 | $ 24,388,926 | $ 1,198,364,458 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES** | | | | |
| Operating income | $ 105,281,777 | $ 7,904,637 | $ 2,979,258 | $ 116,165,672 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | | |
| Investment income | (86,859,333) | (4,497,479) | (3,880,786) | (95,237,598) |
| Other income | (87,068) | | | (87,068) |
| Interest expense | 253,922,863 | 15,823,322 | 545,816 | 270,292,001 |
| Debt issuance cost | 6,380,479 | | 233,850 | 6,614,329 |
| Pension expense | | 377,484 | 1,195,370 | 1,572,854 |
| OPEB expense | | (71,085) | (225,097) | (296,182) |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in other receivables | (348,324,569) | (743,280) | 373,965 | (348,693,884) |
| (Decrease) increase in other payables | (637,225) | 1,724,277 | (74,069) | 1,012,983 |
| Decrease in bonds, notes, and loans receivable | 181,166,414 | 81,535,647 | 5,210,000 | 267,912,061 |
| Net cash provided by operating activities | $ 110,843,338 | $ 102,053,523 | $ 6,358,307 | $ 219,255,168 |

**Noncash capital and financing activities:**

The Authority issued Local Government Revenue Bonds to refund debt issued in 2007 and 2011. The $14 million proceeds were deposited immediately into an escrow account for the defeasance of $13.9 million of outstanding revenue bond principal. (Note 8)

The Authority issued State Revolving Fund Revenue Bonds to current refund debt issued in 2007 and 2018. Of the $138.0 million, proceeds were deposited immediately into an escrow account for the defeasance of $34.2 million of outstanding revenue bond principal. In addition, $51.8 million was remitted to repay the outstanding principal and interest on the Series 2018A BAN. (Note 8)

## Fiduciary Funds – Private Purpose Trust
## Statement of Fiduciary Net Position
September 30, 2019

| | | Michigan Guaranty Agency Federal Fund |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (Note 3) | $ | 18,106,186 |
| Receivable from federal government | | 14,724,764 |
| Total current assets | $ | 32,830,950 |
| Total assets | $ | 32,830,950 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and other liabilities | $ | 4,163,880 |
| Payable to other funds | | 1,251,591 |
| Student loan claims payable | | 11,637,741 |
| Total current liabilities | $ | 17,053,212 |
| Total liabilities | $ | 17,053,212 |
| **NET POSITION** | | |
| Net position held in trust (Notes 1b.(5) and 1d.(1)) | $ | 15,777,738 |

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

## Fiduciary Funds – Private Purpose Trust
## Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2019

| | Michigan Guaranty Agency Federal Fund |
|---|---|
| Additions: | |
| Federal revenue | $ 86,586,265 |
| Loans recovered, repurchased, and rehabilitated | 59,777,039 |
| Investment income | 295,054 |
| Fees | 1,661,860 |
| Total additions | $ 148,320,218 |
| Deductions: | |
| Student loan claims paid to lenders | $ 86,375,240 |
| Payments to federal government | 59,992,126 |
| Other expense | 345,061 |
| Total deductions | $ 146,712,427 |
| Net increase | $ 1,607,791 |
| Net position - Beginning of fiscal year | 14,169,947 |
| Net position - End of fiscal year | $ 15,777,738 |

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

## Note 1 Significant Accounting Policies

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

### a. Reporting Entity

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

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

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

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

The accompanying financial statements report the net financial position and the changes in net financial position and, where applicable, cash flows of the Authority. They do not purport to, and do not, fairly present the net financial position and the changes in net financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report* as a discretely presented component unit.

**b. Authority Programs**

(1) The Authority's Tobacco Settlement Debt Service Fund (formerly known as the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Public Act 226 of 2005, and amended by Public Act 18 of 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds. During fiscal years 2006, 2007, and 2008, the Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.

(2) The Authority's Unemployment Obligation Assessment Debt Service Fund was created pursuant to Public Act 267 of 2011, to account for bonds issued for the purpose of repaying federal advances to the State's unemployment trust account. Under the Act, the bonds are secured by an unemployment obligation assessment, which is collected by the Department of Labor and Economic Opportunity (LEO) from employers and is deposited into the fund.

(3) The Authority's Municipal Bond Fund (formerly known as the Michigan Municipal Bond Authority) was created pursuant to Public Act 227 of 1985, to provide alternative sources of funding for governmental units within the State to undertake or continue public improvements by assisting those governmental units in financing and marketing municipal debt. The Municipal Bond Fund includes the Local Municipalities Subfund, State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund:

(a) The Local Municipalities Subfund includes the financing activities for municipalities, excluding those activities for school districts, water pollution control, and drinking water projects reported in the other subfunds.

(b) The State Revolving Subfund, which includes the Clean Water Program and Drinking Water Program, and the Strategic Water Quality Initiatives Subfund are co-administered by the Authority and the Department of Environment, Great Lakes, and Energy. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects.

(c) The Authority's School Loan Revolving Subfund is a self-sustaining fund and was established by Public Act 93 of 2005, to make loans to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Any money repaid by school districts on loans is deposited back into the revolving fund for future use in funding new loans.

(4) The Authority's Student Loan Fund (formerly known as the Michigan Higher Education Student Loan Authority) was created and organized under Public Act 222 of 1975, as amended, to complement and supplement the student loan efforts of private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.

(5) The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions. The Michigan Guaranty Agency Federal Fund, a fiduciary fund, accounts for money received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). With the passage of the Health Care and Education Reconciliation Act of 2010 on March 26, 2010, no new loan guarantees were permitted to be made by MGA after June 30, 2010.

(6) The Authority's Public School Academy Facilities Fund (formerly known as the Michigan Public Educational Facilities Authority) was authorized by Executive Reorganization Order No. 2002-3 (Section 12.192 of the *Michigan Compiled Laws*) to issue bonds for the purpose of making loans through the purchase of municipal obligations in fully marketable form of a governmental unit or making loans to a nonprofit entity for the benefit of a public school academy. All Public School Academy Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

**c. Other Authority Operations**

(1) The Authority's Healthcare Finance Fund (formerly known as the Michigan State Hospital Finance Authority) was organized under Public Act 38 of 1969, as amended, to facilitate the ability of eligible healthcare providers and facilities to obtain financing and refinancing for capital improvements by obtaining loans from the Authority. The Authority issues bonds for facility equipment loans through the Healthcare Equipment Loan Program and issues revenue bonds and bonds for other capital needs of the facilities. All Healthcare Finance Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

(2) The Authority's Higher Education Facilities Fund (formerly known as the Michigan Higher Education Facilities Authority) was organized under Public Act 295 of 1969, as amended, to issue tax-exempt bonds and lend the proceeds to private or nonpublic, nonprofit institutions of higher education within the State for capital improvements. All Higher Education Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

(3) The Michigan Strategic Fund was organized under Public Act 270 of 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds issued through the Authority are limited obligations of the Authority and are not obligations of the State and, therefore, are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

**d. Basis of Presentation**

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

(1) Government-Wide Financial Statements

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

(2) Fund Financial Statements

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

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

**e. Measurement Focus and Basis of Accounting**

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

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

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

(1) Cash and Cash Equivalents - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, highly liquid short-term investments with original maturities of three months or less that are used by the Authority for cash management rather than investing activities are reported as cash equivalents.

(2) Receivable - Tobacco Settlement Revenue (TSR) - This receivable represents the revenue earned as a result of the sale by the State of a portion of its future TSR. The receivable is recognized as revenue in the government-wide financial statements but is recognized as unavailable revenue in the governmental General Fund and the debt service fund financial statements.

(3) Receivable From State of Michigan - The receivable recorded in the School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund.

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

(4) Interfund Activity - During the course of operations, the Authority has activity between funds for various purposes. Residual balances outstanding at year-end are reported as due from/to other funds. These balances are reported in the fund financial statements and certain eliminations are made between funds included in business-type activities so that only the net amount is included in the business-type activity column on the government-wide financial statements. Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out and certain eliminations are made between funds included in business-type activities so that only the net amount is included in the business-type activity column on the government-wide financial statements.

(5) Interest Receivable - This represents interest income earned but not yet received at year-end. This includes interest income earned on investments, notes, loans, and bonds with the exception of accrued interest receivable from the State of Michigan, which is classified as Receivable from State of Michigan on the financial statements.

(6) Investments - The Authority invests funds that will not be needed for program use in the near term in investments that include money market funds, U.S. Treasury obligations, repurchase agreements, certificates of deposit and bonds. The investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders when due and paying other Authority obligations as required pertaining to rating agency, trustee, servicer charges, and administrative expenses.

(7) Notes Receivable - The Authority issues State aid notes and loans the proceeds to school districts and public school academies to meet cash flow needs for operating purposes. The Student Loan Fund retains Student Loan Asset-Backed notes in the Operating Subfund that may be retained or sold in the future.

(8) Loans Receivable - The Authority has outstanding loans with local units of government, public schools, and students and parents. Premiums on loans are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income.

(9) Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that includes regular principal and interest payments over the life of the bonds.

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

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

(11) Accounts Payable and Other Liabilities - The Authority's accounts payable relate to services provided by vendors and employees and other costs incurred but not yet paid as of year-end.

(12) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund financial statements, bond premiums and discounts are amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

(13) Notes Payable - The Authority issues State aid, tax anticipation, and public school academy facilities notes that are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the school's notes and from investment earnings, undisbursed note proceeds, and other funds of each participating public school retained by the trustees on a note issue-specific basis. In addition, the Authority issues private placement notes for two series of student loan trusts. The net amount of the monthly funds received from student loan borrowers and investment earnings less applicable expenses are used to pay down the Class A notes. The MFA Student Loan Operating Fund holds the Class B notes, and the Student Loan Bond/Note Fund holds the Class A notes.

(14) Interest Payable - This represents interest expense on the Authority's outstanding bonds and notes that has been incurred but not paid at year-end.

(15) Unearned Revenue - The Municipal Bond Fund records unearned revenue for grant awards until the Authority disburses the funds to the recipients.

(16) Arbitrage Payable - In accordance with provisions of the Internal Revenue Code and related regulations, interest income from investments related to the Authority's tax-exempt bond issues is generally limited to the bond yield of the related bond issue. Similarly, loan income on all tax-exempt bond issues that may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of excess loan and investment income. Payments of excess loan or investment income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.

(17) Compensated Absences - In the government-wide and proprietary fund financial statements, compensated absences are reported as liabilities. Compensated absences are accrued employee vacation, banked leave time, and sick leave time. In governmental fund financial statements, liabilities for compensated absences are accrued when they are considered due and payable and recorded in the fund only for separations or transfers that occur before year-end. The Authority is allocated a percentage of assigned employees of the Department of Treasury. The Authority allocates employee payroll costs among the various Authority operating funds as appropriate to where the employees' time resources are concentrated.

(18) Deferred Inflows of Resources - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has three items that qualify for reporting in this category in the government-wide and proprietary fund financial statements: deferred gains on debt refundings, deferred inflows related to pensions, and deferred inflows related to other postemployment benefit costs.

A gain on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the refunding debt. The deferred inflows related to pension and other postemployment benefit costs results from the following: differences between expected and actual actuarial experience, changes in actuarial assumptions, the net difference between projected and actual earnings on investments, changes in the Authority's proportion of the net pension liability and OPEB liability, and differences between employer contributions and the Authority's proportionate share of contributions.

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

(19) Net Position - The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is net position on the government-wide, proprietary fund, and fiduciary fund financial statements. Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net positions are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts. The Student Loan Fund restricted net position is pledged by bond indentures that provide funds for student loans.

(20) Fund Balance - The difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is the fund balance on the governmental fund financial statements. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation or bond covenants.

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

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

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

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

(a) Operating Revenues - The principal operating revenues of the Authority are federal grants, interest earned on loans, provision for loan losses, investment income, and charges to customers for financing services. Federal revenue is for defaulted student loan recoveries, repurchased and rehabilitated loans, and account maintenance. Fees are generated from servicing outstanding loans.

(b) Operating Expenses - Operating expenses of the Authority include arbitrage expense, interest expense on bonds and notes, debt issuance costs, and other administrative expenses.

(c) Non-operating Revenues/Expenses - Non-operating revenues includes funds provided by the State of Michigan and recognized as operating subsidies. Non-operating expenses represent the disbursement of grant funds and principal forgiveness.

(3) Fiduciary Fund - The activity within the fund and the resulting net position do not represent resources of the Authority to finance its operations, restricted or otherwise, and are held in trust by the Authority, on behalf of the USDOE. Additions include federal funds and recovery of funds from potentially defaulted loans, repurchased loans, or rehabilitated loans. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by MGA and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

**h. Use of Estimates**

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

**i. New Accounting Pronouncements**

During the year ended September 30, 2019, the Authority adopted the provisions of GASB statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. As a result, the disclosures within Note 8 have been updated.

## Note 2 Deficit Net Position

The Authority reported a deficit net position of $1,021.6 million at September 30, 2019 on the government-wide statement of net position within governmental activities. The Tobacco Settlement Debt Service Fund activities and the Unemployment Obligation Assessment Debt Service Fund activities accounted for a deficit net position of $1,015.3 million and $6.3 million, respectively, at September 30, 2019.

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

The receivable from the State of Michigan recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority from the transfer of bond proceeds to the primary government that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by LEO from employers, and transferred to the Authority to be used for debt service to pay the principal and interest on the bonds. The receivable from the State of Michigan is derived from the corresponding Authority bond principal and interest outstanding. Bond premiums that are amortized over the life of the bonds increase the book value of the liability by the amount of unamortized premium at September 30, 2019, thereby increasing liabilities greater than assets resulting in a net deficit in the Authority's governmental activities.

## Note 3 Deposits and Investments

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

Deposits and investments held by the Authority at September 30, 2019 were as follows:

| | Governmental Activities Governmental Funds | Business-Type Activities Proprietary Funds | Fiduciary Funds | Total |
|---|---|---|---|---|
| Deposits | $ | $ 1,142,577,238 | $ 25,000 | $ 1,142,602,238 |
| Investments | $ 187,288,030 | $ 2,282,237,975 | $ 17,901,439 | $ 2,487,427,444 |

### a. Authorized Investments

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

(1) Governmental Activities

(a) General Fund

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

(b) Tobacco Settlement Debt Service Fund

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

(c) Unemployment Obligation Assessment Debt Service Fund

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

(2) Business-Type Activities

(a) Municipal Bond Fund

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

(b) Student Loan Fund

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

(c) Michigan Guaranty Agency - Operating Fund

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

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Higher Education Facilities Fund are consolidated into the Michigan Finance Authority - Operating Fund. State statutes for these funds authorize the allowable investments. The authorized investments for the Local Municipalities Subfund are identified under the Municipal Bond Fund in part a.(2)(a) of this note, and the authorized investments for the Public School Academy Facilities Fund are identified in part a.(2)(e) of this note. The authorized investments for the Healthcare Finance Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan; certificates of deposit; commercial paper; U.S. government repurchase agreements; mutual funds; bankers' acceptances; and other obligations approved by the State Treasurer. The authorized investments for the Higher Education Facilities Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan and certificates of deposit.

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

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

**b. Cash and Investment Risks**

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

(1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had $1.14 billion in deposits at September 30, 2019. Of this balance, $1.1 billion was invested in the State of Michigan's common cash pool and $22.2 million was the carrying value of cash in financial institutions.

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

The Authority does not have a policy for controlling custodial credit risk. Of the $22.2 million deposited in financial institutions, $0.4 million was insured by the Federal Depository Insurance Corporation and $21.8 million was uninsured and uncollateralized and, therefore, exposed to custodial credit risk at September 30, 2019.

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

not have a policy for controlling custodial credit risk. At September 30, 2019, there was no exposure to custodial credit risk for investments.

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

At September 30, 2019, the average maturities of investments were as follows:

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| Type of Investment | Fair Value | Less than 1 Year | 1 to 5 Years | 6 to 10 Years | More than 10 Years |
| Governmental Activities | | | | | |
| Government money market funds | $ 119,629,919 | $ 119,629,919 | $ | $ | $ |
| U.S. Treasury Strip Principal | 37,306,331 | 37,306,331 | | | |
| Qualified Municipal GO Bonds | 30,351,780 | 798,464 | 15,072,005 | 14,481,311 | |
| Total governmental activities | $ 187,288,030 | $ 157,734,714 | $ 15,072,005 | $ 14,481,311 | $ |
| Business-Type Activities | | | | | |
| Government money market funds | $ 1,259,690,924 | $ 1,259,690,924 | $ | $ | $ |
| Repurchase Agreement | 321,910,759 | - | 133,759,017 | 188,151,742 | |
| U.S. Treasury State & Local Govt Series | 11,599,830 | 5,658,976 | 5,940,854 | | |
| U.S. Treasury Notes | 1,194,953 | 595,427 | 599,526 | | |
| U.S. Government Agency | 578,049,358 | 502,054,673 | 75,994,685 | | |
| State of Michigan GO Bonds | 21,032,550 | 18,203,971 | 2,828,579 | | |
| Qualified Municipal GO Bonds | 79,835,601 | 29,703,051 | 42,578,123 | 7,554,427 | |
| Certificates of Deposit | 8,924,000 | 3,471,000 | 5,453,000 | | |
| Total business-type activities | $ 2,282,237,975 | $ 1,819,378,022 | $ 267,153,784 | $ 195,706,169 | $ |
| Fiduciary Activities | | | | | |
| Government money market funds | $ 17,901,439 | $ 17,901,439 | $ | $ | $ |

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

At September 30, 2019, the credit quality ratings of debt securities, excluding U.S. treasury state and local government series securities of $11.6 million and certificates of deposits of $8.9 million that are not considered to have credit risk, were as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---|---|---|---|
| Governmental Activities | | | |
| Governmental Money Market Funds | $ 119,629,919 | AAAm | S&P |
| U.S. Treasury Strip Principal | 37,306,331 | Aaa | S&P |
| Qualified Municipal GO Bonds | 3,291,861 | AA+ | S&P |
| Qualified Municipal GO Bonds | 2,650,995 | Aa1 | Moody's |
| Qualified Municipal GO Bonds | 24,408,924 | AA | S&P |
| Total Governmental Activities | $ 187,288,030 | | |
| Business-Type Activities | | | |
| Governmental Money Market Funds | $ 1,259,690,924 | AAAm | S&P |
| Repurchase Agreement | 77,872,479 | A+ | S&P |
| Repurchase Agreement | 133,759,017 | A | S&P |
| Repurchase Agreement | 49,554,564 | AA | S&P |
| Repurchase Agreement | 60,724,699 | A- | S&P |
| U.S. Treasury Notes | 1,194,953 | Aaa | Moody's |
| State of Michigan GO Bonds | 21,032,550 | AA | S&P |
| U.S Government Agency | 577,046,828 | AA+ | S&P |
| U.S. Government Agency | 1,002,530 | Aaa | Moody's |
| Qualified Municipal GO Bonds | 1,977,105 | AA+ | S&P |
| Qualified Municipal GO Bonds | 58,496,988 | AA | S&P |
| Qualified Municipal GO Bonds | 807,168 | AAA | S&P |
| Qualified Municipal GO Bonds | 18,554,340 | Aa1 | Moody's |
| Total Business-Type Activities | $ 2,261,714,145 | | |
| Fiduciary Activities | | | |
| Government Money Markets | $ 17,901,439 | AAAm | S&P |

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

At September 30, 2019, the Authority had investments of 5% or more of the Authority's total investments by fund activity type in the following issuers, excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds, which are excluded from this requirement by GASB:

| Name of Issuer | Fair Value | Percent of Investments |
|---|---|---|
| Business-Type Activities | | |
| U.S. government agency securities - Federal Home Loan Banks | $ 447,648,012 | 20% |
| Repurchase Agreement – Societe Generale | $ 133,759,017 | 6% |

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

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

The Authority has the following recurring fair value measurements as of September 30, 2019:

| | Fair Value | Level 1 | Level 2 |
|---|---|---|---|
| Investments by fair value level: | | | |
| Qualified Municipal GO bonds | $ 110,187,381 | $ 19,073,845 | $ 91,113,536 |
| State of Michigan GO Bonds | 21,032,550 | | 21,032,550 |
| U.S. Government Agency | 578,049,358 | 58,824,944 | 516,224,414 |
| U.S. Treasury State and Local Gov Series | 5,940,854 | 5,940,854 | |

Qualified municipal GO bonds, U.S. treasury state and local government series bonds and certain U.S. government agency securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of qualified municipal GO bonds, State of Michigan GO bonds, and certain U.S. government agency securities at September 30, 2019 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using the matrix pricing technique and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

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

## Note 4 Receivable From State of Michigan

The receivable from the State of Michigan of $1,353.7 million consisted of the following at September 30, 2019:

**a. Unemployment Obligation Assessment Debt Service Fund**

The receivable from the State of Michigan recorded in the Unemployment Obligation Assessment Debt Service Fund represents amounts owed to the Authority from the transfer of bond proceeds to the State of Michigan that were used to repay federal advances to the State's unemployment trust account. The bonds were secured by an unemployment obligation assessment, which is collected by LEO from employers and transferred to the Authority to be used for debt service to pay the principal and interest on the bonds. The receivable to pay for the corresponding bonds payable, disclosed in Note 8, was $83.8 million at September 30, 2019.

The statement of net position for the governmental activities reported a receivable from the State of Michigan totaling $84.5 million. The additional receivable of $0.7 million when compared to the Unemployment Obligation Assessment Debt Service Fund receivable represents amounts recognized as earned under the economic resource measurement focus and the accrual basis of accounting in the statement of net position for accrued interest receivable from the State of Michigan. The Unemployment Obligation Assessment Debt Service Fund utilizes the current financial resources measurement focus and the modified accrual basis of accounting, which does not provide for recognition of the $0.7 million in revenue because it is not subject to accrual.

**b. Municipal Bond Fund - School Loan Revolving Subfund**

The receivable from the State of Michigan recorded in the Municipal Bond Fund - School Loan Revolving Subfund is collateralized by loans to school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was $1,269.2 million at September 30, 2019.

## Note 5 Notes Receivable

The notes receivable of $389.0 million consisted of the following at September 30, 2019:

**a. Municipal Bond Fund**

The Authority originated loans to public schools to meet the schools' immediate cash flow needs for spending purposes from the proceeds of its State aid and tax anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was $348.9 million at September 30, 2019.

The notes receivable bore interest ranging from 1.30% to 3.84% during fiscal year 2019.

**b. Student Loan Fund**

The Authority retained the Class B Notes from the Student Loan Asset-Backed Notes, Series 2015-1, Class A and Class B Taxable LIBOR Floating Rate Notes and Student Loan Asset-Backed Notes, Series 2016-1, Class A-1, Class A-2, and Class B LIBOR Floating Rate Notes. The balance of notes receivable was reported as $18 million at September 30, 2019. The notes receivable bore variable interest rates that reset monthly and are equal to the one-month LIBOR rate plus 1.50%.

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

The Authority originated loans to public school academies to meet the academies' immediate cash flow needs for operating purposes from the proceeds of its public school academy facilities notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was $22.1 million at September 30, 2019. The notes receivable bore interest ranging from 3.65% to 4.45% during fiscal year 2019.

## Note 6 Loans Receivable, Net

Net loans receivable of $2.6 billion consisted of the following at September 30, 2019:

**a. Municipal Bond Fund - Local Municipalities Subfund**

The loans receivable consists of $11.5 million from Ypsilanti Community Schools for fiscal year 2019. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 8. Scheduled repayments of $1.2 million are expected to be collected during fiscal year 2020.

**b. Municipal Bond Fund - State Revolving Subfund**

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. As of September 30, 2019, amounts committed for the Clean Water Program were $3.8 billion and loans of $1.8 billion were outstanding. As of September 30, 2019, amounts committed for the Drinking Water Program were $801.6 million and loans of $360.4 million were outstanding. Scheduled repayments of $214.6 million are expected to be collected during fiscal year 2020.

**c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund**

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities' limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were $39.8 million as of September 30, 2019, and receivables outstanding were $28.9 million. Scheduled repayments of $1.8 million are expected to be collected during fiscal year 2020.

**d. Student Loan Fund**

Loans include educational loans made under the Federal Family Education Loan (FFEL) Program to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's MI-LOAN Program, which are not federally insured. The following are descriptions of the loans and adjustments that comprise the net loans receivable of $426.1 million:

(1) Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates based on the bond equivalent rate for the 91-day U.S. Treasury bill, plus a factor of up to 3.25% depending on the status and/or date of disbursement of the loan.

(2) PLUS Loans - The PLUS interest rate has been a fixed rate of 8.5% since July 1, 2006. Prior to July 1, 2006, interest rates on the PLUS Loans varied annually each July 1, based on the bond equivalent rate for the 91-day U.S. Treasury bill or one-year constant maturity, plus a factor of either 3.25% or 3.10%, depending on when borrowers obtained their first PLUS Loans.

(3) Consolidation Loans - Interest rates on Consolidation Loans are fixed, calculated by rounding the weighted average of the interest rates on the loans consolidated to the nearest 1/8 of 1%, or variable based on the 91-day U.S. Treasury bill, plus 3.10%, not to exceed 8.25%.

(4) MI-LOAN Program Loans - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2019, the MI-LOAN Program balance outstanding was $72.7 million. The MI-LOAN Program's fixed interest rate loans ranged from 5.95% to 9.50%. The MI-LOAN Program's variable interest rate was 3.67% at September 30, 2019. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.

(5) Allowance - The Authority's Stafford Loans, PLUS Loans, and Consolidation Loans are guaranteed primarily by the Authority's Michigan Guaranty Agency and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2019, the Authority's recorded allowance for FFEL Program loans was $0.3 million.

MI-LOAN Program loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. As of September 30, 2019, the Authority's recorded allowance for the MI-LOAN Program loans was $1.4 million.

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

## Note 7 Bonds Receivable

Bonds receivable consist of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 8. During the fiscal year, the Authority purchased local governmental units' municipal bonds for $242.5 million from the proceeds of the Authority's bond issuance. The annual requirements for governmental units to repay their bonds to the Authority as of September 30, 2019, including principal and interest, were as follows:

| Fiscal Years Ending | Principal | Interest | Total |
|---|---|---|---|
| 2020 | $ 282,391,000 | $ 195,562,498 | $ 477,953,498 |
| 2021 | 309,209,000 | 182,426,308 | 491,635,308 |
| 2022 | 311,034,000 | 169,753,311 | 480,787,311 |
| 2023 | 275,516,000 | 156,932,192 | 432,448,192 |
| 2024 | 242,071,000 | 146,014,278 | 388,085,278 |
| 2025 – 2029 | 914,891,000 | 585,193,568 | 1,500,084,568 |
| 2030 – 2034 | 926,565,000 | 381,181,025 | 1,307,746,025 |
| 2035 – 2039 | 473,410,000 | 172,623,774 | 646,033,774 |
| 2040 – 2044 | 413,840,000 | 73,766,854 | 487,606,854 |
| 2045 – 2049 | 85,330,000 | 8,734,460 | 94,064,460 |
| Total unadjusted bonds and interest | $ 4,234,257,000 | $ 2,072,188,268 | $ 6,306,445,268 |
| Unamortized premium/discounts | 170,887,242 | | 170,887,242 |
| Unamortized accretion for capital appreciation bonds | (214,379) | | (214,379) |
| Total | $ 4,404,929,863 | $ 2,072,188,268 | $ 6,477,118,131 |

# Note 8 Bonds and Notes Payable, Net

**a. Net bonds and notes payable** of $9,065.2 million consisted of the following at September 30, 2019:

| Series | Date of Issue | Original Issue | Interest Rate Percentage (a) | Maturity Dates | Amounts Outstanding as of September 30, 2019 |
|---|---|---|---|---|---|
| **Tobacco Settlement Debt Service Fund** | | | | | |
| **Tobacco Settlement Asset-Backed Bonds:** | | | | | |
| Series 2006A - Serial | May 17, 2006 | $ 363,115,000 | 7.31% | June 1, 2034 | $ 272,000,000 |
| Series 2007A - Serial | August 20, 2007 | $ 480,125,000 | 5.125% to 6% | June 1, 2047 | 452,000,000 |
| Series 2007B - Capital appreciation (b) | August 20, 2007 | $ 35,649,948 | 7.25% | June 1, 2052 | 865,290,000 |
| Series 2007C - Capital appreciation (b) | August 20, 2007 | $ 7,216,749 | 7.5% | June 1, 2052 | 195,100,000 |
| Series 2008A - Serial | July 7, 2008 | $ 114,860,000 | 6.875% | June 1, 2024 | 114,860,000 |
| Series 2008B - Capital appreciation (b) | July 7, 2008 | $ 29,874,650 | 8.5% | June 1, 2046 | 700,625,000 |
| Series 2008C - Capital appreciation (b) | July 7, 2008 | $ 57,673,814 | 8.875% | June 1, 2058 | 4,395,870,000 |
| **Total Tobacco Settlement Asset-Backed Bonds** | | | | | **$ 6,995,745,000** |
| **Unemployment Obligation Assessment Debt Service Fund** | | | | | |
| **Unemployment Obligation Assessment Revenue Bonds:** | | | | | |
| Series 2012B | June 27, 2012 | $ 1,204,645,000 | 5% | July 1, 2020 | 168,150,000 |
| **Total Unemployment Obligation Assessment Revenue Bonds** | | | | | **$ 168,150,000** |
| **Municipal Bond Fund - Local Municipalities Subfund** | | | | | |
| **Municipal State Aid and Tax Anticipation Notes:** | | | | | |
| * 2019A TAN | January 14, 2019 | $ 15,360,000 | Variable 3.84% (c) | August 20, 2020 | $ 5,630,000 |
| 2019A-1 | August 20, 2019 | $ 172,635,000 | 4.00% | August 20, 2020 | $ 172,635,000 |
| 2019A-2 | August 20, 2019 | $ 166,035,000 | 2.50% | August 20, 2020 | $ 166,035,000 |
| **Local Government Loan Program Revenue Bonds:** | | | | | |
| Series 1994G - Capital appreciation (b) | December 21, 1994 | $ 7,379,737 | 7.10% | May 1, 2020 | 5,375,000 |
| Series 1997C | October 30, 1997 | $ 16,335,000 | 5.375% | November 1, 2020 | 160,000 |
| Series 1998A | June 16, 1998 | $ 16,100,000 | 5.2% | November 1, 2019 | 85,000 |
| Series 1999C | June 24, 1999 | $ 16,685,000 | 5.375% | November 1, 2019 | 55,000 |
| Series 2000B | November 28, 2000 | $ 5,905,000 | 5.5% | November 1, 2020 | 505,000 |
| Series 2002B | November 1, 2002 | $ 16,790,000 | 4.45% to 4.625% | May 1, 2022 | 420,000 |
| Series 2003B | September 30, 2003 | $ 19,665,000 | 4.5% to 6% | November 1, 2023 | 3,110,000 |
| Series 2004A | February 18, 2004 | $ 41,155,000 | 4.375% to 6% | May 1, 2034 | 5,395,000 |
| Series 2004B | May 13, 2004 | $ 26,830,000 | 4.75% to 5% | May 1, 2022 | 135,000 |
| Series 2007A | March 29, 2007 | $ 21,875,000 | 4% to 4.25% | May 1, 2029 | 2,470,000 |
| Series 2007B | August 3, 2007 | $ 98,435,000 | 5% to 5.25% | December 1, 2027 | 9,015,000 |
| Series 2007C | December 19, 2007 | $ 31,080,000 | 4.125% to 5% | May 1, 2031 | 19,790,000 |
| Series 2009B | March 31, 2009 | $ 34,020,000 | 5.375% to 5.625% | November 1, 2028 | 2,030,000 |
| Series 2009C | September 23, 2009 | $ 45,795,000 | 4.2% to 5% | May 1, 2024 | 1,520,000 |
| Series 2010A | March 31, 2010 | $ 27,005,000 | 4% to 5% | May 1, 2022 | 3,955,000 |
| Series 2010B | May 18, 2010 | $ 38,245,000 | 5.8% to 6.7% | May 1, 2027 | 21,405,000 |
| Series 2010C | May 25, 2010 | $ 6,710,000 | 6.25 | May 1, 2020 | 480,000 |
| Series 2010D | September 30, 2010 | $ 14,290,000 | 3.5% to 5% | June 1, 2030 | 3,485,000 |
| Series 2010E | December 16, 2010 | $ 100,000,000 | 7.188% to 8.369% | November 1, 2035 | 89,390,000 |
| Series 2011A | March 3, 2011 | $ 31,565,000 | 5.75% to 6.375% | November 1, 2025 | 11,585,000 |
| Series 2011C | May 3, 2011 | $ 7,710,000 | 6.2% to 6.5% | May 1, 2026 | 5,330,000 |
| Series 2011D | June 29, 2011 | $ 8,975,000 | 4% | May 1, 2020 | 2,100,000 |
| Series 2011E | September 20, 2011 | $ 1,775,000 | 4% to 4.75% | May 1, 2026 | 955,000 |
| Series 2011F | October 28, 2011 | $ 14,960,000 | 4% to 5.25% | October 1, 2041 | 13,610,000 |
| Series 2012B | August 8, 2012 | $ 18,880,000 | 3% to 4% | November 1, 2028 | 6,460,000 |
| Series 2012D | October 18, 2012 | $ 7,950,000 | 3% to 4% | May 1, 2032 | 5,940,000 |
| Series 2013A | May 14, 2013 | $ 9,370,000 | 2% to 4% | May 1, 2033 | 7,105,000 |
| Series 2013C | October 2, 2013 | $ 30,000,000 | 4% to 5.25% | October 1, 2043 | 28,675,000 |
| Series 2014B | July 2, 2014 | $ 184,960,000 | 5% | July 1, 2044 | 169,220,000 |
| Series 2014C | September 4, 2014 | $ 935,860,000 | 5% | July 1, 2044 | 775,010,000 |
| Series 2014D | September 4, 2014 | $ 854,850,000 | 5% | July 1, 2037 | 651,695,000 |
| * Series 2014F | December 10, 2014 | $ 275,000,000 | 3.4% to 4.6% | October 1, 2029 | 228,500,000 |
| Series 2014H | October 30, 2014 | $ 295,350,000 | 5% | October 1, 2039 | 252,290,000 |
| Series 2015A | March 12, 2015 | $ 192,580,000 | 4.422% to 5% | May 1, 2025 | 91,825,000 |
| * Series 2015B | June 29, 2016 | $ 16,750,000 | 3.16% to 4.8% | May 1, 2045 | 16,750,000 |
| Series 2015C | December 15, 2015 | $ 197,660,000 | 5% | July 1, 2035 | 197,160,000 |
| Series 2015D | December 15, 2015 | $ 126,665,000 | 5% | July 1, 2035 | 121,560,000 |
| Series 2015E | November 30, 2015 | $ 4,955,000 | 3% to 4% | November 1, 2032 | 4,295,000 |
| Series 2016A | March 29, 2016 | $ 14,470,000 | 5% | May 1, 2029 | 11,940,000 |
| Series 2016B | March 26, 2016 | $ 5,225,000 | 2.22% to 2.61% | May 1, 2022 | 3,205,000 |
| Series 2016C | August 11, 2016 | $ 606,180,000 | 1.817% to 5% | November 1, 2035 | 503,470,000 |
| * Series 2016D | September 29, 2016 | $ 226,380,000 | 3.9% to 4.32% | March 31, 2023 | 123,550,000 |
| * Series 2017A | June 19, 2017 | $ 19,300,000 | 3.95% to 4.375%, Variable 4.362866% (d) | September 25, 2029 | 17,153,000 |
| * Series 2017B | June 15, 2017 | $ 6,380,000 | Variable 4.421%(e) | May 3, 2021 | 10,299,000 |
| * Series 2017C | September 14, 2017 | $ 291,755,000 | 2.91% | May 1, 2024 | 242,110,000 |
| * Series 2018A | April 25, 2018 | $ 10,500,000 | 5.85% | May 1, 2030 | 10,500,000 |
| Series 2018B | August 8, 2018 | $ 3,005,000 | 3% to 5% | May 1, 2039 | 3,005,000 |
| * Series 2018C | November 1, 2018 | $ 2,245,000 | 5.5% | November 1, 2028 | 2,245,000 |
| Series 2018D | December 13, 2018 | $ 175,985,000 | 4.920% to 5.02% | November 1, 2043 | 175,985,000 |
| Series 2019A | July 9, 2019 | $ 6,475,000 | 5% | November 1, 2032 | 6,475,000 |
| Series 2019B | July 9, 2019 | $ 6,795,000 | 2.36% to 3.56% | November 1, 2035 | 6,795,000 |

| Series | Date of Issue | Original Issue | Interest Rate Percentage (a) | Maturity Dates | Amounts Outstanding as of September 30, 2019 |
|---|---|---|---|---|---|
| **School Loan Revenue Bonds:** | | | | | |
| Series 2013 | August 20, 2013 | $ 18,615,000 | 4.25% to 5% | August 1, 2026 | 11,445,000 |
| **State Aid Revenue Bonds:** | | | | | |
| Series 2018 | August 16, 2018 | $ 288,625,000 | 4% to 5% | November 1, 2048 | 288,625,000 |
| **Transportation Revenue Bonds:** | | | | | |
| * Series 2017A | November 16, 2017 | $ 85,000,000 | 2.38% to 4.096% | April 1, 2029 | 85,000,000 |
| **Total Municipal Bond Fund - Local Municipalities Subfund** | | | | | **$ 4,604,947,000** |
| **Municipal Bond Fund - State Revolving Subfund:** | | | | | |
| Series 2004, Clean Water Revolving Fund Revenue Bonds | April 21, 2004 | $ 286,605,000 | 4.75% to 5% | October 1, 2026 | 10,315,000 |
| Series 2004, Drinking Water Revolving Fund Revenue Bonds | April 21, 2004 | $ 67,895,000 | 5% | October 1, 2026 | 2,650,000 |
| Series 2005, Clean Water Revolving Fund Revenue Bonds | July 26, 2005 | $ 103,630,000 | 4.75% to 5% | October 1, 2027 | 5,730,000 |
| Series 2005, Drinking Water Revolving Fund Revenue Bonds | July 26, 2005 | $ 79,480,000 | 4.75% to 5% | October 1, 2027 | 3,780,000 |
| Series 2006, Clean Water Revolving Fund Revenue Bonds | November 2, 2006 | $ 150,000,000 | 4.2% to 5% | October 1, 2026 | 10,070,000 |
| Series 2009, Clean Water Revolving Fund Refunding Bonds | June 30, 2009 | $ 150,805,000 | 4% to 5% | October 1, 2019 | 7,125,000 |
| Series 2010, Clean Water Revolving Fund Revenue Bonds | March 18, 2010 | $ 178,740,000 | 4% to 5% | October 1, 2020 | 16,425,000 |
| Series 2010, Clean Water Revolving Fund Refunding Bonds | March 18, 2010 | $ 67,420,000 | 5% | October 1, 2020 | 10,175,000 |
| Series 2011, Clean Water Revolving Fund Refunding Bonds | November 3, 2011 | $ 225,860,000 | 5% | October 1, 2021 | 63,305,000 |
| Series 2011, Drinking Water Revolving Fund Refunding Bonds | November 3, 2011 | $ 56,860,000 | 3% to 5% | October 1, 2024 | 26,400,000 |
| Series 2012, Clean Water Revolving Fund Revenue Bonds | April 26, 2012 | $ 131,410,000 | 4% to 5% | October 1, 2022 | 24,555,000 |
| Series 2012, Clean Water Revolving Fund Refunding Bonds | July 10, 2012 | $ 89,595,000 | 5% | October 1, 2021 | 47,825,000 |
| Series 2012, Drinking Water Revolving Fund Refunding Bonds | July 10, 2012 | $ 16,755,000 | 5% | October 1, 2020 | 6,710,000 |
| Series 2013, Clean Water Revolving Fund Refunding Bonds | February 20, 2013 | $ 137,745,000 | 5% | October 1, 2026 | 92,160,000 |
| Series 2013, Drinking Water Revolving Fund Refunding Bonds | February 20, 2013 | $ 31,110,000 | 5% | October 1, 2026 | 20,660,000 |
| * Series 2014A, Clean Water Revolving Fund Refunding Bonds | October 9, 2014 | $ 61,585,000 | 3% | October 1, 2027 | 46,005,000 |
| * Series 2014A, Drinking Water Revolving Fund Refunding Bonds | October 9, 2014 | $ 42,655,000 | 3% | October 1, 2027 | 31,970,000 |
| * Series 2014B, Clean Water Revolving Fund Refunding Bonds | October 23, 2014 | $ 40,020,000 | 2% | October 1, 2020 | 3,055,000 |
| * Series 2015A, Clean Water Revolving Fund Refunding Bonds | June 11, 2015 | $ 77,475,000 | 2% | October 1, 2028 | 63,975,000 |
| * Series 2015B, Clean Water Revolving Fund Refunding Bonds | December 21, 2015 | $ 112,025,000 | 2% | October 1, 2028 | 133,020,000 |
| Series 2016B, Clean Water Revolving Fund Revenue Bonds | November 17, 2016 | $ 104,475,000 | 2% to 5% | October 1, 2036 | 99,720,000 |
| Series 2016B, Clean Water Revolving Fund Refunding Bonds | November 17, 2016 | $ 188,640,000 | 2% to 5% | October 1, 2030 | 188,305,000 |
| * Series 2017A, Clean Water Revolving Fund Refunding Bonds | December 19, 2017 | $ 145,600,000 | 2.2% to 2.58% | October 1, 2031 | 141,990,000 |
| Series 2018B, Clean Water Revolving Fund Revenue Refunding Bond | December 19, 2018 | $ 138,050,000 | 4% to 5% | October 1, 2039 | 138,050,000 |
| **Total Municipal Bond Fund - State Revolving Subfund** | | | | | **$ 1,193,975,000** |
| **Municipal Bond Fund - School Loan Revolving Subfund:** | | | | | |
| Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds | December 15, 2010 | $ 150,000,000 | Variable 2.15% (f) | September 1, 2050 | $ 150,000,000 |
| Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds | December 15, 2010 | $ 150,000,000 | Variable 2.20% (f) | September 1, 2050 | 150,000,000 |
| Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds | December 15, 2010 | $ 150,000,000 | Variable 1.98% (f) | September 1, 2050 | 150,000,000 |
| Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds | December 15, 2010 | $ 85,000,000 | 5.246% to 6.496% | September 1, 2025 | 78,000,000 |
| Series 2014A, Federally Taxable Bonds SLRF Revenue Bonds | April 10, 2014 | $ 150,000,000 | Variable 2.05% (f) | September 1, 2053 | 150,000,000 |
| Series 2015A, Federally Taxable Bonds SLRF Revenue Bonds | April 22, 2015 | $ 200,000,000 | 3.396% to 4.345% | September 1, 2045 | 200,000,000 |
| Series 2019A1, Federally Taxable Bonds SLRF Revenue Bonds | April 16, 2019 | $ 150,000,000 | 2.862% | September 1, 2022 | 150,000,000 |
| Series 2019A2, Federally Taxable Bonds SLRF Revenue Bonds | April 16, 2019 | $ 150,000,000 | 2.862% to 2.988% | September 1, 2024 | 150,000,000 |
| **Total Municipal Bond Fund - School Loan Revolving Subfund** | | | | | **$ 1,178,000,000** |
| **Student Loan Fund** | | | | | |
| **Student Loan Bonds:** | | | | | |
| * Series 22-B, Student Loan Revenue Refunding Bonds | December 15, 2017 | $ 73,000,000 | Variable 2.646% (g) | September 1, 2042 | 43,218,000 |
| Series 25-A, Student Loan Revenue Refunding Bonds | December 4, 2014 | $ 168,000,000 | 3.5% to 5% | November 1, 2031 | 122,000,000 |
| **Student Loan Notes:** | | | | | |
| Series 2015-1 (26-A), Student Loan Asset-Backed Notes-Class A | March 24, 2015 | $ 302,600,000 | Variable 2.79350% (h) | April 29, 2030 | 128,155,000 |
| * Series 2015-1 (26-A), Student Loan Asset-Backed Notes-Class B | March 24, 2015 | $ 9,000,000 | Variable 3.54350% (i) | April 28, 2033 | 9,000,000 |
| * Series 2016-1 (27-A), Student Loan Asset-Backed Notes-Class A | January 15, 2016 | $ 273,000,000 | Variable 2.7253% (j) | January 2, 2029 | 132,295,000 |
| * Series 2016-1 (27-A), Student Loan Asset-Backed Notes-Class B | January 15, 2016 | $ 9,000,000 | Variable 3.6003% (i) | January 3, 2034 | 9,000,000 |
| **Total Student Loan Fund** | | | | | **$ 443,668,000** |
| **Non-Major Funds** | | | | | |
| **Public School Academy Facilities Notes:** | | | | | |
| * Series 2019B-1 | September 5, 2019 | $ 22,115,300 | 1.88% | August 20, 2020 | $ 22,115,300 |
| * Series 2019B-2 | September 5, 2019 | $ 2,490,600 | 2.31% | August 20, 2020 | $ 2,490,600 |
| **Total Non-Major Funds** | | | | | **$ 24,605,900** |

* Direct placement bonds and notes.

(a) Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2019 or the September 30, 2019 effective rates for variable rate bonds and notes.

(b) Capital appreciation bonds are reported at ultimate maturity value.

(c) 2019A TAN interest rate changes monthly and is equal to the sum of Thirty Day LIBOR rate plus 2.80% per annum, multiplied by 79.00%.

(d) 2017A-3 interest rate changes monthly and is equal to the sum of one-month LIBOR rate in effect on each Reset Date multiplied by 70% plus 2.95%.

(e) 2017-B interest rate changes monthly and is equal to the sum of thirty-day LIBOR rate plus 4.75% per annum, multiplied by 65.10%; not to exceed the maximum rate allowed by law.

(f) Interest rate changes every seven days based on a market rate determined by the assigned remarketing agent.

(g) 22-B interest rate changes monthly based on 75% of the one-month LIBOR floating rate plus 107 basis points.

(h) 2015-1 Class A interest rate changes monthly based on the one-month LIBOR floating rate plus 75 basis points.

(i) 2015-1 and 2016-1 Class B interest rate changes monthly based on the one-month LIBOR floating rate plus 150 basis points.

(j) 2016-1 Class A interest rate changes monthly based on the one-month LIBOR floating rate plus 62.5 basis points.

**b. Annual debt service requirements for the Authority** to service bond and note debt outstanding as of September 30, 2019, including both principal and interest, are as follows (in millions):

| | Tobacco Settlement Debt Service Fund | | Unemployment Obligation Assessment Debt Service Fund | | Municipal Bond Fund - Local Municipalities Subfund | | Municipal Bond Fund - Local Municipalities Subfund - Direct Placements | | Municipal Bond Fund - State Revolving Subfund | | Municipal Bond Fund - State Revolving Subfund - Direct Placements | | Municipal Bond Fund - School Loan Revolving Subfund | | Student Loan Fund | | Student Loan Fund - Direct Placements | | Non-Major Funds Direct Placements | | Totals | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Years Ending | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest (a) | Principal | Interest (a) | Principal | Interest | Principal | Interest |
| 2020 | $ 18.9 | $ 54.5 | $ 168.2 | $ 8.4 | $ 524.5 | $ 180.3 | $ 118.4 | $ 26.9 | $ 102.0 | $ 34.8 | $ 32.2 | $ 9.8 | $ 606.0 | $ 23.9 | 29.3 | $ 8.4 | $ 33.8 | $ 5.0 | $ 24.6 | $ 0.3 | $ 1,657.8 | $ 352.3 |
| 2021 | 20.1 | 53.3 | | | 185.0 | 161.7 | 125.5 | 22.6 | 97.6 | 30.0 | 32.2 | 9.1 | 12.0 | 21.1 | 29.3 | 7.3 | 33.8 | 4.1 | | | 535.6 | 309.2 |
| 2022 | 45.8 | 52.0 | | | 181.0 | 152.5 | 131.4 | 18.2 | 84.0 | 25.6 | 31.8 | 8.3 | 166.0 | 20.4 | 29.3 | 6.2 | 33.8 | 3.2 | | | 703.1 | 286.4 |
| 2023 | 57.6 | 49.3 | | | 162.0 | 143.8 | 115.3 | 13.4 | 62.8 | 22.0 | 53.6 | 7.3 | 22.0 | 15.2 | 29.3 | 5.1 | 33.8 | 2.3 | | | 536.4 | 258.4 |
| 2024 | 96.9 | 45.3 | | | 184.2 | 136.2 | 59.8 | 10.0 | 51.6 | 19.2 | 56.2 | 6.0 | 162.0 | 13.8 | 29.3 | 4.2 | 33.8 | 1.3 | | | 673.8 | 236.0 |
| 2025 - 2029 | 133.5 | 176.5 | | | 764.4 | 558.7 | 154.4 | 26.7 | 208.8 | 60.4 | 182.4 | 14.2 | 82.7 | 33.8 | 84.6 | 9.5 | 24.3 | 1.1 | | | 1,635.2 | 880.9 |
| 2030 - 2034 | 175.9 | 123.9 | | | 900.1 | 377.7 | 26.5 | 3.5 | 98.5 | 23.3 | 31.6 | 1.2 | 57.6 | 22.6 | 19.0 | 1.1 | | | | | 1,309.3 | 553.2 |
| 2035 - 2039 | 87.8 | 77.1 | | | 469.3 | 170.5 | 4.1 | 2.1 | 59.8 | 8.1 | | | 35.2 | 11.5 | | | | | | | 656.2 | 269.4 |
| 2040 - 2044 | 118.3 | 47.3 | | | 408.6 | 72.7 | 5.2 | 1.1 | 8.8 | 0.2 | | | 28.8 | 5.0 | | | | | | | 569.7 | 126.2 |
| 2045 - 2049 | 784.6 | 10.2 | | | 84.1 | 8.7 | 1.2 | 0.1 | | | | | 5.8 | 0.2 | | | | | | | 875.7 | 19.2 |
| 2050 - 2054 | 1,060.4 | | | | | | | | | | | | | | | | | | | | 1,060.4 | |
| 2055 - 2059 | 4,395.9 | | | | | | | | | | | | | | | | | | | | 4,395.9 | |
| Total unadjusted bonds, notes, and interest | $ 6,995.7 | $ 689.4 | $ 168.2 | $ 8.4 | $ 3,863.2 | $ 1,962.9 | $ 741.7 | $ 124.7 | $ 774.0 | $ 223.6 | $ 420.0 | $ 55.8 | $ 1,178.0 | $ 167.6 | $ 250.2 | $ 41.7 | $ 193.5 | $ 17.0 | $ 24.6 | $ 0.3 | $ 14,609.1 | $ 3,291.3 |
| Unamortized premium | | | 6.5 | | 207.5 | | | | 80.5 | | - | | | | 1.1 | | | | | | 295.5 | |
| Unamortized discounts | (15.0) | | | | (0.1) | | | | | | | | | | | | | | | | (15.1) | |
| Unamortized accretion for capital appreciation bonds | (5,824.1) | | | | (0.2) | | | | | | | | | | | | | | | | (5,824.3) | |
| Total | $ 1,156.6 | $ 689.4 | $ 174.6 | $ 8.4 | $ 4,070.4 | $ 1,962.9 | $ 741.7 | $ 124.7 | $ 854.5 | $ 223.6 | $ 420.0 | $ 55.8 | $ 1,178.0 | $ 167.6 | $ 251.2 | $ 41.7 | $ 193.5 | $ 17.0 | $ 24.6 | $ 0.3 | $ 9,065.2 | $ 3,291.3 |

(a) For Series 22-B, Series 26, and Series 27 in the Student Loan Fund, the redemptions were calculated prior to the maturity date because the initial purchaser estimated an earlier final redemption based on cash flow estimations.

**c. <u>Changes in long-term debt for the fiscal year ended September 30, 2019</u> are as follows:**

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due Thereafter |
|---|---|---|---|---|---|---|
| Governmental Activities | | | | | | |
| Tobacco Settlement Asset-Backed Bonds | $ 7,017,470,000 | $ | $ (21,725,000) | $ 6,995,745,000 | $ 18,890,000 | $ 6,976,855,000 |
| Unemployment Obligation Assessment Revenue Bonds | 728,610,000 | | (560,460,000) | 168,150,000 | 168,150,000 | |
| Total Governmental Activities | $ 7,746,080,000 | $ 0 | $ (582,185,000) | $ 7,163,895,000 | $ 187,040,000 | $ 6,976,855,000 |
| Business-Type Activities | | | | | | |
| Local Municipalities Subfund State Aid Notes | $ 350,401,771 | $ 338,670,000 | $ (350,401,771) | $ 338,670,000 | $ 338,670,000 | $ |
| Local Municipalities Subfund State Aid Notes - Direct Placements | 4,500,000 | | (4,500,000) | 0 | | |
| Local Municipalities Subfund Tax Anticipation Notes - Direct Placements | 4,545,000 | 15,360,000 | (14,275,000) | 5,630,000 | 5,630,000 | |
| Local Municipalities Subfund Local Government Loan Program Bonds | 3,248,795,000 | 189,255,000 | (213,580,000) | 3,224,470,000 | 184,580,000 | 3,039,890,000 |
| Local Municipalities Subfund Local Government Loan Program Bonds -Direct Placements | 762,002,000 | 2,245,000 | (113,140,000) | 651,107,000 | 112,766,000 | 538,341,000 |
| Local Municipalities Subfund School Loan Revenue Bonds | 12,595,000 | | (1,150,000) | 11,445,000 | 1,220,000 | 10,225,000 |
| Local Municipalities Subfund State Aid Revenue Bonds | 288,625,000 | | | 288,625,000 | | 288,625,000 |
| Local Municipalities Subfund Transportation Revenue Bonds -Direct Placements | 34,000,000 | 51,000,000 | | 85,000,000 | | 85,000,000 |
| State Revolving Subfund | 807,376,500 | 159,071,000 | (192,487,500) | 773,960,000 | 101,965,000 | 671,995,000 |
| State Revolving Subfund - Direct Placements | 456,680,000 | | (36,665,000) | 420,015,000 | 32,200,000 | 387,815,000 |
| School Loan Revolving Subfund | 882,000,000 | 300,000,000 | (4,000,000) | 1,178,000,000 | 606,000,000 | 572,000,000 |
| Student Loan Bonds | 133,000,000 | | (11,000,000) | 122,000,000 | 11,000,000 | 111,000,000 |
| Student Loan Bonds - Direct Placements | 59,209,000 | | (15,991,000) | 43,218,000 | 8,232,000 | 34,986,000 |
| Student Loan Notes | 154,112,000 | | (25,957,000) | 128,155,000 | 18,307,857 | 109,847,143 |
| Student Loan Notes - Direct Placements | 177,514,000 | | (27,219,000) | 150,295,000 | 25,605,484 | 124,689,516 |
| Public School Academy Facilities Notes - Direct Placements | 30,490,000 | 24,605,900 | (30,490,000) | 24,605,900 | 24,605,900 | |
| Total Business-Type Activities | $ 7,405,845,271 | $ 1,080,206,900 | $ (1,040,856,271) | $ 7,445,195,900 | $ 1,470,782,241 | $ 5,974,413,659 |
| **Total Bonds and Notes Payable** | **$ 15,151,925,271** | **$ 1,080,206,900** | **$ (1,623,041,271)** | **$ 14,609,090,900** | **$ 1,657,822,241** | **$ 12,951,268,659** |

## d. <u>Refunded Bonds and Notes</u>

(1) <u>State Revolving Fund</u>

On December 19, 2018, the Authority issued $138.0 million in Clean Water Revolving Fund Revenue Refunding Bonds, Series 2018B under the State Revolving Fund.

The Bonds refunded $28.3 million of the Clean Water Revolving Fund Revenue Bonds, Series 2007. The bonds were sold with a true interest cost of 2.34% and garnered a Net Present Value Savings of $4.2 million, or approximately 12.39% of the refunded bonds.

The proceeds purchased US Treasury State and Local Government series (SLGs) and were used to redeem the Clean Water Revolving Fund Revenue Bonds, Series 2007 on January 22, 2019.

Proceeds from the December 19, 2018 bond issue were also used to repay outstanding principal and interest on the Series 2018A Bond Anticipation Note in the amount of $51.8 million.

(2) Local Government Loan Program

On November 1, 2018, the Authority issued $2.2 million in Local Government Loan Program Revenue Refunding Bonds, Series 2018C (School District of the City of Pontiac Local Project Refunding Bonds) with a true interest cost of 5.50%. The Bonds refunded in whole the Michigan Finance Authority Series 2014E. The net proceeds of $2.2 million (Bond Proceeds and Obligor Contribution) were used to refund Series 2014E. The total net present value in savings was $28,846.68 or 1.32% of the refunded bonds.

On July 9, 2019, the Authority issued $6.4 million in Local Government Loan Program Revenue Refunding Bonds, Series 2019A with a true interest cost of 2.57% and $6.7 million in Series 2019B (Federally Taxable) with a true interest cost of 3.33%. The 2019A Bonds refunded in whole the Michigan Municipal Bond Authority Local Government Loan Program Revenue Sharing Bonds, Series 2007D. The 2019A total net present value savings was $1.1 million or 14.66% of the refunded bonds. The 2019B Bonds refunded in whole the Michigan Finance Authority Local Government Loan Program Revenue Bonds, Series 2011B. The 2019B total net present value savings was 1.2 million or 18.61% of the refunded bonds.

**e. Defeased Bonds**

The Authority has defeased certain Municipal Bond Fund bonds by depositing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased was $239.1 million at September 30, 2019.

**f. Demand Bonds**

(1) School Loan Revolving Fund

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

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

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

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

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

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

## Note 9 Conduit Debt Obligations

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

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

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

The total outstanding limited obligation bonds and defeased and undefeased portions as of September 30, 2019 were as follows:

| | Higher Education Facilities Fund | Public School Academy Facilities Fund | Healthcare Finance Fund | Michigan Strategic Fund | Total |
|---|---|---|---|---|---|
| Defeased | $ | $ | $ 410,275,000 | $ | $ 410,275,000 |
| Undefeased | 527,423,170 | 196,630,000 | 8,896,793,556 | 37,360,532 | 9,658,207,258 |
| Total outstanding | $ 527,423,170 | $ 196,630,000 | $ 9,307,068,556 | $ 37,360,532 | $ 10,068,482,258 |

## Note 10 Employee Benefits

### a. Plan Descriptions

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

**b. Funding Policy**

For the defined contribution plan, the Authority was required to contribute 3.68% of payroll with an additional match of up to 3%. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the Internal Revenue Service allowed maximum. Employees participating in the defined contribution plan vest in employer contributions at 50% after two years of service, 75% after three years of service, and 100% after four years of service. Forfeited employer contributions are retained within the defined contribution plan and are used toward future employer required contributions. The Authority transferred $197,000 to the State for its employer contribution for the defined contribution plan in fiscal year 2019. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

**c. Postemployment Benefits**

The Authority participates in the State of Michigan's single-employer postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Authority was required to contribute 23.8% of payroll for the employer cost of other postemployment benefits in fiscal year 2019. The State pays 80% of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

## Note 11 Revenue from Federal Government

**a. Business-Type Activities and Proprietary Funds**

(1) Student Loan Fund

The USDOE pays the Student Loan Fund an interest subsidy on subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. The interest subsidy for fiscal year 2019 totaled $1.4 million. In addition, federal legislation provides for a special allowance that is principally an incentive payment made so that money market conditions and interest rates will not impede the issuance of student loans. The USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a one-month LIBOR yield during the quarter or, for loans disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance received for fiscal year 2019 was $1.8 million. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE. The negative special allowance paid for fiscal year 2019 totaled $3.2 million.

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

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

**b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund**

The Michigan Guaranty Agency Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on MGA's trigger default rate. All defaulted loans are currently reimbursed by the Federal Government at 100% unless MGA’s trigger default rate exceeds 5%. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2019 was 3.22%.

## Note 12 Contingencies

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

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

In calendar years 2006 and 2007, the Michigan Tobacco Settlement Finance Authority and the State entered into purchase agreements to purchase the right, title, and interest in and to 13.34% and 10.77%, respectively, of all TSR that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in calendar years 2008 and 2010, respectively.

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

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

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. All defaulted loans are currently reimbursed by the Federal Government at 100% unless MGA's trigger default rate exceeds 5%. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2019.

In the event of future adverse default experience in which the trigger default rate exceeds 5% but less than 9%, the federal government's reinsurance rate could be as low as 85%. In addition, if MGA's trigger default rate exceeds 9%, the federal government's reinsurance rate could be as low as 75%; therefore, MGA could be liable for up to 25% of defaulted loans. Although management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was $252.8 million as of September 30, 2019. Management does not expect that all guaranteed loans could default in one year.

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee outstanding loans in accordance with the Higher Education Act of 1965, as amended. Management believes MGA was in compliance with this requirement as of September 30, 2019.

## Note 13 General Information on Employee Pension Plans

**a. Plan Description**

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

- The Attorney General
- The State Treasurer
- The Legislative Auditor General
- The State Personnel Director
- One member or retirant of the State Employees' Retirement System appointed by the Governor
- One member of the Judges Retirement System appointed by the Governor

- One current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions appointed by the Governor
- One retirant member of the State Employees' Retirement System appointed by the Governor
- One member of the general public appointed by the Governor

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

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

**b. Benefits Provided**

(1) Introduction - Benefit provisions of the defined benefit pension plan (DB) are established by State statute, which may be amended. Public Act 240 of 1943, the State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. 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 pension plan instead of the defined contribution plan.

(2) Pension Reform of 2012 - On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate State employment. The 4% contribution began on April 1, 2012.

- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's defined contribution (DC) plan. The 4% contribution began April 1, 2012 and continues until they switch to the DC plan or terminate employment, whichever comes first.

- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4% and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they receive a 4% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

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

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

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

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

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

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

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

1. Age 60 with 10 or more years of credited service; 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 by 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

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

1. Age 51 with 25 or more years in a covered position; 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.

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

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

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

annually. At age 60, the benefit is recomputed under service retirement.

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

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

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

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

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

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

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

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

**c. Contributions**

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

(2) Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2019, the component unit's contribution rate was 21.98% of the defined benefit employee wages and 17.69% of the defined contribution employee wages. The Authority's contribution to the System for the fiscal year ended September 30, 2019 was $727,241.

**d. Actuarial Assumptions**

The Authority's net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, at the measurement date:

| | |
|---|---|
| Wage inflation rate | 2.75% |
| Projected salary increases | 2.75% - 11.75%, including inflation of 2.75% |
| Investment rate of return | 7.0% |
| Cost-of-living pension adjustment | 3% annual non-compounded with maximum annual increase of $300 for those eligible |

Mortality rates were based on RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using the projection scale MP-2017 from 2006. For active members, 100% of the male table rates were used. For women, 100% of the female table rates were used.

Actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study covering the period from October 1, 2012 through September 30, 2017. The investment rate of return assumption was reduced from 7.5 percent to 7.0 percent beginning with the September 30, 2017 valuation and the mortality assumption was also updated. The assumption changes increased the computed liability.

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, 2018 are summarized in the following table:

**Asset Allocation**

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return* |
|---|---|---|
| Domestic equity pools | 28.0 % | 5.7% |
| Private equity pools | 18.0 | 9.2% |
| International equity pools | 16.0 | 7.2% |
| Fixed income pools | 10.5 | .5% |
| Real estate and infrastructure pools | 10.0 | 3.9% |
| Absolute return pools | 15.5 | 5.2% |
| Short-term investment pools | 2.0 | 0.0% |
| **Total** | 100.0 % | |

* Long-term rates of return are net of administrative expenses and 2.3% inflation

**e. Discount Rate**

A discount rate of 7.0% 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 7.0%. 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, 2019, the Authority reported a liability of $7,874,841 for its proportionate share of the System's net pension liability. This liability was allocated by full-time equivalent (FTE) count to the three operating funds of the Authority, which include the Student Loan Fund, a major fund; the Michigan Guaranty Agency - Operating Fund, a non-major fund; and the Michigan Finance Authority - Operating Fund, a non-major fund.

The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the Authority's required pension contributions received by the System during the measurement period from October 1, 2017 through September 30, 2018 relative to the total required employer contributions from all of the System's participating employers. At September 30, 2018, the Authority's proportion was 0.130%.

**g. Pension Liability Sensitivity**

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | 1% Decrease 6.0% | Current Discount 7.0% | 1% Increase 8.0% |
|---|---|---|---|
| Authority's proportionate share of the net pension liability | $ 10,300,179 | $ 7,874,841 | $ 5,809,316 |

**h. Pension Plan Fiduciary Net Position**

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

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

For the fiscal year ended September 30, 2019, the Authority's recognized pension expense was $2,349,924. At September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on investments | $ | $ 672,790 |
| Authority's contributions subsequent to the measurement date | 727,241 | |
| Total | $ 727,241 | $ 672,790 |

Amounts reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended September 30 | Pension Expense Amount |
|---|---|
| 2020 | $ (74,713) |
| 2021 | (237,922) |
| 2022 | (252,499) |
| 2023 | (107,656) |

## Note 14 Other Postemployment Benefit (OPEB) Plans

**Defined Benefit OPEB Plan- Healthcare**

**a. Plan Description**

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

The Michigan State Employees' Retirement System is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. These reports 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**

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20% of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earnings a 30% subsidy with ten years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

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

This plan is closed to new hires.

**c. <u>Contributions</u>**

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent of payroll value funding principles so the contribution rates do not have to increase over time. For fiscal year 2019, the Authority's contribution rate was 23.80% of the defined benefit employee wages and 23.80% of the defined contribution employee wages. The Authority's contribution to the System for the fiscal year ending September 30, 2019 was $1,037,630. Active employees are not required to contribute to the System OPEB.

**d. <u>Actuarial Assumptions</u>**

The Authority's net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions, at the measurement date:

| | |
|---|---|
| Wage Inflation Rate | 2.75% |
| Investment Rate of Return | 7.0% |
| Projected Salary Increases | 2.75% - 11.75% |
| Health Care Cost Trend Rate | 8.25% Year 1 graded to 3.0% Year 10 |
| Mortality | RP-2014 Combined Healthy Life Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006. For active members, 100% of the male table rates were used. For women, 100% of the female table rates were used. |

The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017. The investment rate of return assumption was reduced from 7.5 percent to 7.0 percent beginning with the September 30, 2017 valuation and the mortality assumption was also updated. The assumption changes increased the computed liability.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return* |
|---|---|---|
| Domestic Equity Pools | 28.0 % | 5.7 % |
| Private Equity Pools | 18.0 | 9.2 |
| International Equity Pools | 16.0 | 7.2 |
| Fixed Income Pools | 10.5 | 0.5 |
| Real Estate and Infrastructure Pools | 10.0 | 3.9 |
| Absolute Return Pools | 15.5 | 5.2 |
| Short Term Investment Pools | 2.0 | 0.0 |
| **TOTAL** | 100.0 % | |

* Long-term rates of return are net of administrative expenses and 2.3% inflation

**e. Discount Rate**

A Single Discount Rate of 7.0% was used to measure the total OPEB liability. This Single Discount Rate was based on the expected rate of return on OPEB plan investments of 7.0%. The projection of cash flows used to determine this Single Discount Rate assumed that in the future, plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member (retiree) rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**f. Net OPEB Liability**

At September 30, 2019, the Authority reported a liability of $10,316,845 for its proportionate share of the System's net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Authority's proportion of the net OPEB liability was based on the Authority's required OPEB contributions received by the System during the measurement period October 1, 2017, through September 30, 2018, relative to the total required employer contributions from all of the System's participating employers. At September 30, 2018, the Authority's proportion was 0.130 percent.

The investment return assumption was updated beginning with the September 30, 2017 valuation in accordance with the Dedicated Gains Policy adopted by the Board of Trustees. This assumption change increased the computed liabilities.

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

The following table presents the Authority's proportionate share of the net OPEB liability, calculated using a Single Discount Rate of 7.00%, as well as what the Authority's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

| | September 30, 2019 | | |
|---|---|---|---|
| | 1% Decrease (6.0%) | Current Discount (7.0%) | 1% Increase (8.0%) |
| Authority's proportionate share of the net OPEB Liability | $ 11,914,230 | $ 10,316,845 | $ 8,977,080 |

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

The following table presents the Authority's proportionate share of the net OPEB liability, calculated using the assumed trend rates as well as what the Authority's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

| | September 30, 2019 | | |
|---|---|---|---|
| | 1% Decrease (7.25 to 2%) | Current Trend Rate (8.25 to 3%) | 1% Increase (9.25 to 4%) |
| Authority's proportionate share of the net OPEB Liability | $ 8,895,575 | $ 10,316,845 | $ 11,968,224 |

**i. OPEB Plan Fiduciary Net Position**

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

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

For the year ended September 30, 2019, the Authority recognized OPEB expense of $790,202. At September 30, 2019, the Authority's reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**September 30, 2019**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ | $ 1,185,010 |
| Net difference between projected and actual earnings on investments | | 137,511 |
| Change in assumptions | 860,567 | |
| Changes in proportion and differences between actual contributions and proportion share of contributions | 92,164 | 51,683 |
| Authority's contributions subsequent to the measurement date | 1,037,630 | |
| Total | $ 1,990,361 | $ 1,374,204 |

Amounts reported as deferred outflows of resources related to OPEB resulting from Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended September 30 | OPEB Expense Amount |
|---|---|
| 2020 | $ (106,577) |
| 2021 | (106,577) |
| 2022 | (106,577) |
| 2023 | (82,953) |
| 2024 | (18,789) |

**Postemployment Life Insurance Benefits**

**k. <u>Plan Description</u>**

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

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (Fund), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to State employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

**l. Benefits Provided**

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

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

**m. Contributions**

The State requires the employer to contribute to finance 100% of the premiums for employee and retiree life insurance coverage. The premium rates for fiscal year 2019 are $.28 during the year for each $1,000.00 of coverage. The employee contributes 100% of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

**n. Actuarial Valuations and Assumptions**

The Authority's total OPEB liability as of September 30, 2019 was measured as of September 30, 2018 and is based on an actuarial valuation performed as of September 30, 2017 and rolled forward using generally accepted actuarial procedures.

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

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

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

| | |
|---|---|
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return (Discount Rate): | 3.83% per year |
| Mortality: | Healthy Life and Disabled Life Mortality, with 115 percent of the Male rates and 121 percent of the Female rates used in the pension valuations for MSERS plan members |

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

Spouse Benefits for Future Retirees: The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 3 percent for MSERS retirees.

Spouse Benefits for Current Retirees: Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 4 percent for MSERS retirees.

Compensation: For some MSERS retirees, FAC was not reported. The FAC for these members was assumed to be $51,045 (the average of all MSERS retiree records reported with FAC).

For purposes of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to convert a FAC to a base wage is based on the length of the FAC period for each group. The factor used for MSERS was 0.983092 (2 year FAC) for Conservation and 0.966565 (3 year FAC) for Corrections and All Others.

For MSERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the MSERS DB plan.

Other: The face values of The Plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50% x compensation at retirement (compensation reported for the 2017 retirement system valuations):
Spousal benefits: $1,000
Individuals retired on or before July 1974: $3,000
Spousal benefits: $1,000.

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2017 retirement valuations were included in this valuation of the Plan.

**o. Discount Rate**

A discount rate of 3.83% was used to measure the ending total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2018. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets. The municipal bond rate of 3.5% was used for determining the beginning total OPEB liability for Postemployment Life Insurance Benefits as of September 30, 2017.

**p. Total OPEB Liability for Postemployment Life Insurance Benefits**

As of September 30, 2019, the Authority reported a liability of $1,522,275 for its proportionate share of the State's Postemployment Life Insurance Benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2018 based on an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the total OPEB liability was determined by dividing the Authority's actual contributions to the Plan during the measurement period of October 1, 2017, through September 30, 2018, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2018, the Authority's proportion was 0.122 percent.

**q. Sensitivity of the Total OPEB Liability for Postemployment Life Insurance**

The following table presents the Authority's proportionate share of the total OPEB liability, calculated using a Single Discount Rate of 3.83%, as well as what the Authority's total OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

| | September 30, 2019 | | |
|---|---|---|---|
| | 1% Decrease (2.83%) | Current Discount (3.83%) | 1% Increase (4.83%) |
| Authority's proportionate share of the net OPEB Liability | $ 1,779,874 | $ 1,522,275 | $ 1,316,504 |

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

For the year ended September 30, 2019, the Authority recognized OPEB expense of $49,202. At September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | September 30, 2019 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 1,040 | $ 7,720 |
| Changes of assumptions | | 132,402 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 40,862 |
| Authority's contributions subsequent to the measurement date | 49,949 | |
| Total | $ 50,989 | $ 180,984 |

Amounts reported as deferred outflows of resources related to OPEB resulting from Authority's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended September 30 | OPEB Expense Amount |
|---|---|
| 2020 | $ (40,430) |
| 2021 | (40,430) |
| 2022 | (40,430) |
| 2023 | (38,262) |
| 2024 | (20,392) |

**s. Aggregate defined benefit OPEB amounts**

Amounts reported for defined benefit postemployment benefits other than pensions and postemployment life insurance benefits are aggregated on the Statement of New Position as follows:

| | September 30, 2019 | | |
|---|---|---|---|
| | Net OPEB Liability | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Postemployment benefits other than pensions | $ 10,316,845 | $ 1,990,361 | $ 1,374,204 |
| Postemployment life insurance benefits | 1,522,275 | 50,989 | 180,984 |
| Total | $ 11,839,120 | $ 2,041,350 | $ 1,555,188 |

## Note 15 Risk Management

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

## Note 16 Subsequent Events

**a. Municipal Bond Fund**

On November 20, 2019, the Authority issued $200.8 million of School Loan Revolving Fund Term Rate Revenue Refunding Bonds, Series 2019B within the Municipal Bond Fund – School Loan Revolving Fund. The bonds refunded on a pro rata basis $200 million of the Authority's outstanding 1) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010A Bonds; 2) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010B Bonds; 3) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010C Bonds, and 4) School Loan Revolving Fund Revenue Bonds, Series 2014A.

On December 4, 2019, the Authority issued $150 million of School Loan Revolving Fund Revenue Refunding Bonds, Series 2019C within the Municipal Bond Fund – School Loan Revolving Fund, and $150 million of School Loan Revolving Fund Revenue Refunding Bonds, Series 2019D within the Municipal Bond Fund – School Loan Revolving Fund. The bonds refunded on a pro rata basis $300 million of the Authority's outstanding 1) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010A Bonds; 2) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010B Bonds; 3) School Loan Revolving Fund Revenue and Refunding Bonds, Series 2010C Bonds, and 4) School Loan Revolving Fund Revenue Bonds, Series 2014A. The remaining $100 million outstanding on the bonds was also paid on December 4, 2019 by the Authority to fully extinguish the above series within the School Loan Revolving Fund.

**b. Limited Obligation Bonds**

On December 18, 2019, the Authority issued limited obligation bonds of $205.9 million within the Healthcare Finance Fund.

## Note 17 Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2020.

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

In May 2019, the Governmental Accounting Standards Board issued GASB Statement No. 91, Conduit Debt Obligations, which clarifies the existing definition of conduit debt, provides a single method of reporting conduit debt obligations by issuers, and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. As a result, issuers should not recognize a liability for items meeting the definition of conduit debt; however, a liability should be recorded for additional or voluntary commitments to support debt service if certain recognition criteria are met. The standard also addresses the treatment of arrangements where capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by a third-party obligor. The requirements of the standard will be applied retrospectively and are effective for the Authority's financial statements for the September 30, 2022 fiscal year.

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# Required Supplementary Information
## Other Than Management's Discussion and Analysis

## Governmental General Fund
## Budgetary Comparison Schedule
For the Fiscal Year Ended September 30, 2019

| Statutory/Budgetary Basis | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|---|---|---|---|
| Beginning budgetary fund balance | $ 1,710,111 | $ 1,710,111 | $ 1,710,111 | $ 0 |
| Resources (inflows) | | | | |
| Tobacco settlement revenue | $ 432,130 | $ 432,130 | $ 432,130 | $ 0 |
| Miscellaneous | 40,094 | 40,094 | 40,094 | 0 |
| Total resources (inflows) | $ 472,221 | $ 472,221 | $ 472,221 | $ 0 |
| Amount available for uses (outflows) | $ 2,182,332 | $ 2,182,332 | $ 2,182,332 | $ 0 |
| Uses (outflows) | $ 360,360 | $ 360,360 | $ 360,360 | $ 0 |
| Total uses (outflows) | $ 360,360 | $ 360,360 | $ 360,360 | $ 0 |
| Ending budgetary fund balance | $ 1,821,972 | $ 1,821,972 | $ 1,821,972 | $ 0 |

See accompanying note to required supplementary information.

## GOVERNMENTAL GENERAL FUND
## BUDGETARY COMPARISON SCHEDULE BUDGET-TO-GAAP RECONCILIATION
For the Fiscal Year Ended September 30, 2019

| | | |
|---|---|---|
| **Sources/inflows of resources** | | |
| Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule | $ | 2,182,332 |
| Differences - Budget to GAAP: | | |
| Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes | | (1,710,111) |
| Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance | $ | 472,221 |
| **Uses/outflows of resources** | | |
| Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule | $ | 360,360 |
| Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance | $ | 360,360 |

## Note 1 Statutory/Budgetary Presentation

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

The budgetary comparison schedule presents the original and final budget for fiscal year 2019, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the original budget reflects the final budget, and the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Proportion of the Net Pension Liability | 0.130% | 0.130% | 0.130% | 0.137% | 0.129% |
| Proportionate Share of the Net Pension Liability | $7,874,841 | $6,701,048 | $6,877,499 | $7,515,042 | $6,637,870 |
| Covered Payroll | $3,837,049 | $3,402,067 | $3,684,273 | $4,009,269 | unavailable |
| MFA's proportionate share of the net pension liability as a percentage of its covered payroll | 205.23% | 196.97% | 186.67% | 187.44% | unavailable |
| Plan fiduciary net position as a percentage of the total pension liability | 67.22% | 69.45% | 67.48% | 66.11% | 68.07% |

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

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

## Schedule of Michigan Finance Authority's Contributions State Employees' Retirement Plan

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Statutorily Required Contribution | $727,241 | $801,352 | $940,163 | $833,378 | $1,020,121 |
| Contributions in relation to the statutorily required contribution | $727,241 | $801,352 | $940,163 | $833,378 | $1,020,121 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $3,903,855 | $3,837,049 | $3,402,067 | $3,684,273 | $4,009,269 |
| Contributions as a percentage of covered payroll | 18.63% | 20.88% | 27.64% | 23.98% | 25.44% |

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

## Note 1 Pension Funding

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

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

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

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

**Valuation:**

Actuarially determined contribution amounts are calculated as of September 30, each year, which is 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 2019**

| | |
|---|---|
| Actuarial Cost Method | Entry Age, Normal |
| Amortization Method | Level Dollar, Closed |
| Remaining Amortization Period | 20 years, closed ending September 30, 2036 |
| Asset Valuation Method | 5-Year Smoothed Market |
| Inflation | 3.5% |
| Salary Increases | 3.5% to 12.5%%, including wage inflation at 3.5% |
| Investment Rate of Return | 7.00% per year |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2000 Combined Healthy Mortality Table adjusted for mortality improvements to 2015 using projection scale BB. For active members, 50% of the table rates were used for males and females. |

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – HEALTHCARE OPEB LIABILITY

### Schedule of the Michigan Finance Authority's Proportionate Share of Net OPEB Liability
### State Employees' Retirement System- Healthcare

| | 2019 | 2018 |
|---|---|---|
| Proportion of the Net OPEB Liability | 0.130% | 0.129% |
| Proportionate Share of the Net OPEB Liability | $ 10,316,845 | $ 10,613,347 |
| Covered Payroll | $ 3,837,049 | $ 3,402,067 |
| MFA's proportionate share of the net OPEB liability as a percentage of its covered payroll | 268.87% | 311.97% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 24.41% | 19.89% |

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

### Schedule of Michigan Finance Authority's OPEB Contributions
### State Employees' Retirement Plan-Healthcare

| | 2019 | 2018 |
|---|---|---|
| Statutorily Required Contribution | $ 1,037,630 | $ 849,342 |
| Contributions in relation to the statutorily required contribution | $ 1,037,630 | $ 849,342 |
| Contribution deficiency (excess) | $ - | $ - |
| Covered Payroll | $ 3,903,855 | $ 3,837,049 |
| Contributions as a percentage of covered payroll | 26.58% | 22.14% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

## Note 1 OPEB Funding

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

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

The Schedule of the Proportionate Share of the Net OPEB Liability and Schedule of Contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. The Schedule of Contributions is a comparison of the Authority's contributions to the actuarially determined contributions.

The information presented in the Schedule of Contributions was used in the actuarial valuation for purposes of determining actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the OPEB 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 2019**

| | |
|---|---|
| Actuarial Cost Method | Entry Age, Normal |
| Amortization Method | Level-Percent of Payroll, Closed |
| Remaining Amortization Period | 18 years, closed ending September 30, 2036 |
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.50% |
| Salary Increases | 3.50% wage inflation |
| Investment Rate of Return | 7.50%, net of OPEB plan investment and administrative expenses |
| Retirement Age | Experience-based table of rates that are specific to the type of eligibility condition |
| Mortality | The RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. |
| Health Care Trend Rates | 9.00% trend, gradually decreasing to 3.50% in year 10 |
| Aging Factors | Based on the 2013 SOA "Health Care Costs- From Birth to Death" |

### Schedule of the Michigan Finance Authority's Proportionate Share of Total OPEB Liability
### State Employees' Retirement System – Life Insurance

| | 2019 | 2018 |
|---|---|---|
| Proportion of the total OPEB Liability | 0.122% | 0.125% |
| Proportionate Share of the total OPEB Liability | $ 1,522,275 | $ 1,605,417 |
| Covered Employee Payroll | $ 3,725,961 | $ 3,967,621 |
| MFA's proportionate share of the total OPEB liability as a percentage of its covered employee payroll | 40.86% | 40.46% |

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

The Plan is not a trust and has no assets.

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# Supplemental Financial Statements

## NON-MAJOR FUNDS
## COMBINING STATEMENT OF NET POSITION
September 30, 2019

| | Michigan Guaranty Agency - Operating Fund | Michigan Finance Authority - Operating Fund | Public School Academy Facilities Fund | Totals |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 21,242,264 | $ 681,508 | $ 2,465,154 | $ 24,388,926 |
| Receivable from federal government | 191,045 | | | 191,045 |
| Receivable from other funds | 1,251,583 | 521,361 | | 1,772,944 |
| Interest receivable | 526,481 | 109,675 | 36,123 | 672,279 |
| Investments | 24,820,726 | 3,989,407 | 46,148 | 28,856,281 |
| Notes receivable | | | 22,149,000 | 22,149,000 |
| Other current assets | | 574,432 | | 574,432 |
| Total current assets | $ 48,032,099 | $ 5,876,383 | $ 24,696,425 | $ 78,604,907 |
| Noncurrent assets: | | | | |
| Investments | $ 26,362,663 | $ 10,225,634 | $ | $ 36,588,297 |
| Total noncurrent assets | $ 26,362,663 | $ 10,225,634 | $ 0 | $ 36,588,297 |
| Total assets | $ 74,394,762 | $ 16,102,017 | $ 24,696,425 | $ 115,193,204 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred outflows related to pensions | $ 360,138 | $ 161,934 | $ | $ 522,072 |
| Deferred outflows related to OPEB | 1,041,089 | 510,338 | | 1,551,427 |
| Total deferred outflows of resources | $ 1,401,227 | $ 672,272 | $ 0 | $ 2,073,499 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and other liabilities | $ 230 | | | $ 230 |
| Bonds and notes payable, net | | | 24,605,900 | 24,605,900 |
| Interest payable | | | 18,806 | 18,806 |
| Total current liabilities | $ 230 | $ 0 | $ 24,624,706 | $ 24,624,936 |
| Noncurrent liabilities: | | | | |
| Compensated absences | $ 244,276 | $ 100,408 | $ | $ 344,684 |
| Net pension liability | 4,001,977 | 1,996,002 | | 5,997,979 |
| Net OPEB liability | 6,037,952 | 2,959,779 | | 8,997,731 |
| Total noncurrent liabilities | $ 10,284,205 | $ 5,056,189 | $ 0 | $ 15,340,394 |
| Total liabilities | $ 10,284,435 | $ 5,056,189 | $ 24,624,706 | $ 39,965,330 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflows related to pensions | $ 342,987 | $ 168,459 | $ | $ 511,446 |
| Deferred inflows related to OPEB | 793,146 | 388,798 | | 1,181,944 |
| Total deferred outflows of resources | $ 1,136,133 | $ 557,257 | $ 0 | $ 1,693,390 |
| **NET POSITION** | | | | |
| Restricted | $ 64,375,421 | $ | $ 2,465,154 | $ 66,840,575 |
| Unrestricted | | 11,160,843 | (2,393,435) | 8,767,408 |
| Total net position | $ 64,375,421 | $ 11,160,843 | $ 71,719 | $ 75,607,983 |

## Non-Major Funds
## Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2019

| | Michigan Guaranty Agency - Operating Fund | Michigan Finance Authority Operating Fund | Public School Academy Facilities Fund | Totals |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Federal revenue: | | | | |
| Loan recoveries | $ 2,999,410 | $ | $ | $ 2,999,410 |
| Loans repurchased and rehabilitated | 6,936,871 | | | 6,936,871 |
| Account maintenance | 822,941 | | | 822,941 |
| Interest revenue | | | 842,541 | 842,541 |
| Investment income | 2,946,321 | 744,283 | 190,182 | 3,880,786 |
| Fees: | | | | |
| Default aversion | 335,553 | | | 335,553 |
| Authority | | 1,220,855 | | 1,220,855 |
| Miscellaneous | 1,152,106 | | | 1,152,106 |
| Total operating revenues | $ 15,193,202 | $ 1,965,138 | $ 1,032,723 | $ 18,191,063 |
| **OPERATING EXPENSES** | | | | |
| Interest expense | $ | $ | $ 545,816 | $ 545,816 |
| Debt issuance costs | | | 233,850 | 233,850 |
| Other administrative expense | 12,137,592 | 2,232,747 | 61,800 | 14,432,139 |
| Total operating expenses | $ 12,137,592 | $ 2,232,747 | $ 841,466 | $ 15,211,805 |
| Operating income (loss) | $ 3,055,610 | $ (267,609) | $ 191,257 | $ 2,979,258 |
| **TRANSFERS** | | | | |
| Transfers from other funds | $ | $ 51,584 | $ | $ 51,584 |
| Transfers to other funds | | | (18,368) | (18,368) |
| Total transfers | $ 0 | $ 51,584 | $ (18,368) | $ 33,216 |
| Change in net position | $ 3,055,610 | $ (216,025) | $ 172,889 | $ 3,012,474 |
| Net position - Beginning of fiscal year | 61,319,811 | 11,376,868 | (101,170) | 72,595,509 |
| Net position - End of fiscal year | $ 64,375,421 | $ 11,160,843 | $ 71,719 | $ 75,607,983 |

## NON-MAJOR FUNDS
## COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2019

| | Michigan Guaranty Agency - Operating Fund | Michigan Finance Authority - Operating Fund | Public School Academy Facilities Fund | Totals |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Bonds, notes, and loans receivable made | $ | $ | $ (24,984,000) | $ (24,984,000) |
| Principal received on bonds, notes, and loans | | | 30,194,000 | 30,194,000 |
| Interest received on bonds, notes, and loans | | | 868,629 | 868,629 |
| Cash payments to employees and suppliers for goods and services | (11,088,932) | (2,432,630) | (61,800) | (13,583,362) |
| Other operating revenues | 12,153,781 | 1,709,259 | | 13,863,040 |
| Net cash provided by (used in) operating activities | $ 1,064,849 | $ (723,371) | $ 6,016,829 | $ 6,358,307 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Proceeds from sale of bonds and notes, net | $ | $ | $ 24,605,900 | $ 24,605,900 |
| Payment of debt issuance costs | | | (235,150) | (235,150) |
| Principal paid on bonds and notes | | | (30,490,000) | (30,490,000) |
| Interest paid on bonds and notes | | | (568,265) | (568,265) |
| Transfers | | 51,584 | (18,368) | 33,216 |
| Net cash provided by (used in) noncapital financing activities | $ 0 | $ 51,584 | $ (6,705,883) | $ (6,654,299) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investments | $ (25,630,365) | $ | $ | $ (25,630,365) |
| Proceeds from sale and maturities of investments | 34,270,000 | 2,010,000 | | 36,280,000 |
| Net (purchases of) proceeds from sale and maturity of money market funds | | (1,603,263) | 29,705 | (1,573,558) |
| Interest and dividends on investments | 1,861,642 | 341,808 | 190,182 | 2,393,632 |
| Net cash provided by investing activities | $ 10,501,277 | $ 748,545 | $ 219,887 | $ 11,469,709 |
| Net increase (decrease) in cash | $ 11,566,126 | $ 76,758 | $ (469,167) | $ 11,173,717 |
| Cash and cash equivalents - Beginning of fiscal year | 9,676,138 | 604,750 | 2,934,321 | 13,215,209 |
| Cash and cash equivalents - End of fiscal year | $ 21,242,264 | $ 681,508 | $ 2,465,154 | $ 24,388,926 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES** | | | | |
| Operating income (loss) | $ 3,055,610 | $ (267,609) | $ 191,257 | $ 2,979,258 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Investment income | (2,946,321) | (744,283) | (190,182) | (3,880,786) |
| Interest expense | | | 545,816 | 545,816 |
| Debt issuance cost | | | 233,850 | 233,850 |
| Pension expense | 802,155 | 393,215 | | 1,195,370 |
| OPEB expense | (151,052) | (74,045) | | (225,097) |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in other receivables | 380,834 | (32,957) | 26,088 | 373,965 |
| (Decrease) increase in other payables | (76,377) | 2,308 | | (74,069) |
| Decrease in bonds, notes, and loans receivable | | | 5,210,000 | 5,210,000 |
| Net cash provided by (used in) operating activities | $ 1,064,849 | $ (723,371) | $ 6,016,829 | $ 6,358,307 |

# SUPPLEMENTAL FINANCIAL SCHEDULES

## MUNICIPAL BOND FUND
## COMBINING SUPPLEMENTAL SCHEDULE OF NET POSITION
September 30, 2019

| | Local Municipalities Subfund | State Revolving Subfund | |
|---|---|---|---|
| | | Clean Water Program | Drinking Water Program |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 711 | $ 9,144,027 | $ 418,862 |
| Receivable from federal government | | 111,910 | 169,419 |
| Interest receivable | 56,371,024 | 5,810,876 | 2,163,007 |
| Investments | 81,273,048 | 1,027,512,922 | 375,270,691 |
| Notes receivable | 348,876,373 | | |
| Loans receivable, net | 1,220,000 | 181,348,214 | 33,261,205 |
| Bonds receivable | 282,391,000 | | |
| Total current assets | $ 770,132,156 | $ 1,223,927,949 | $ 411,283,184 |
| Noncurrent assets: | | | |
| Receivable from State of Michigan | $ | $ | $ |
| Investments | 599,526 | 351,952,396 | 51,893,902 |
| Loans receivable, net | 10,310,711 | 1,638,514,790 | 327,116,597 |
| Bonds receivable | 4,122,538,863 | | |
| Total noncurrent assets | $ 4,133,449,100 | $ 1,990,467,186 | $ 379,010,499 |
| Total assets | $ 4,903,581,256 | $ 3,214,395,135 | $ 790,293,683 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred loss on refunding | $ 645,770 | $ 30,526,939 | $ 910,387 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable and other liabilities | $ 53,926,914 | $ 161,813 | $ 77,469 |
| Bonds and notes payable, net | 647,961,202 | 116,765,000 | 17,400,000 |
| Interest payable | 68,203,391 | 21,826,879 | 1,923,552 |
| Unearned revenue | | | 5,000,000 |
| Arbitrage payable | | 949,198 | 0 |
| Total current liabilities | $ 770,091,507 | $ 139,702,890 | $ 24,401,021 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net | $ 4,164,126,899 | $ 1,062,411,728 | $ 77,880,324 |
| Arbitrage payable | | 105,466 | 0 |
| Total noncurrent liabilities | $ 4,164,126,899 | $ 1,062,517,194 | $ 77,880,324 |
| Total liabilities | $ 4,934,218,406 | $ 1,202,220,084 | $ 102,281,345 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred gain on refunding | $ 1,050,987 | $ 923,868 | $ 0 |
| **NET POSITION** | | | |
| Restricted for: | | | |
| State Revolving Subfund | $ | $ 2,041,778,122 | $ 688,922,725 |
| Strategic Water Quality Initiatives Subfund | | | |
| School Loan Revolving Subfund | | | |
| Unrestricted | (31,042,367) | | |
| Total net position | $ (31,042,367) | $ 2,041,778,122 | $ 688,922,725 |

| Strategic Water Quality Initiatives Subfund | School Loan Revolving Subfund | Totals |
|---|---|---|
| $ 27,703 | $ 1,118,311,331 | $ 1,127,902,634 |
| | | 281,329 |
| | 595,069 | 64,939,976 |
| 20,668,876 | 149,737,717 | 1,654,463,254 |
| | | 348,876,373 |
| 1,795,000 | | 217,624,419 |
| | | 282,391,000 |
| $ 22,491,579 | $ 1,268,644,117 | $ 3,696,478,985 |
| | | |
| $ | $ 1,269,167,427 | $ 1,269,167,427 |
| | 2,828,579 | 407,274,403 |
| 27,133,026 | | 2,003,075,124 |
| | | 4,122,538,863 |
| $ 27,133,026 | $ 1,271,996,006 | $ 7,802,055,817 |
| | | |
| $ 49,624,605 | $ 2,540,640,123 | $ 11,498,534,802 |
| | | |
| $ 0 | $ 2,110,216 | $ 34,193,312 |
| | | |
| $ 19,500 | | $ 54,185,696 |
| | 606,000,000 | 1,388,126,202 |
| | 2,691,185 | 94,645,007 |
| | | 5,000,000 |
| | | 949,198 |
| $ 19,500 | $ 608,691,185 | $ 1,542,906,103 |
| | | |
| $ | $ 572,000,000 | $ 5,876,418,951 |
| | | 105,466 |
| $ 0 | $ 572,000,000 | $ 5,876,524,417 |
| | | |
| $ 19,500 | $ 1,180,691,185 | $ 7,419,430,520 |
| | | |
| $ 0 | $ 0 | $ 1,974,855 |
| | | |
| $ | $ | $ 2,730,700,847 |
| 49,605,105 | | 49,605,105 |
| | 1,362,059,154 | 1,362,059,154 |
| | | (31,042,367) |
| $ 49,605,105 | $ 1,362,059,154 | $ 4,111,322,739 |

## MUNICIPAL BOND FUND
## COMBINING SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2019

| | Local Municipalities Subfund | State Revolving Subfund | |
|---|---|---|---|
| | | Clean Water Program | Drinking Water Program |
| **OPERATING REVENUES** | | | |
| Federal revenue | $ | $ 361,841 | $ 246,044 |
| Interest revenue | 193,912,578 | 43,206,048 | 8,869,040 |
| Investment income | 443,838 | 45,922,187 | 10,308,472 |
| Miscellaneous | 323,587 | 14,490 | 30,400 |
| Total operating revenues | $ 194,680,003 | $ 89,504,566 | $ 19,453,956 |
| **OPERATING EXPENSES** | | | |
| Arbitrage expense | $ | $ 1,290 | $ 0 |
| Interest expense | 189,402,677 | 30,602,999 | 2,818,931 |
| Debt issuance costs | 4,245,969 | 1,046,405 | 0 |
| Other administrative expense | 287,422 | 729,669 | 278,371 |
| Total operating expenses | $ 193,936,068 | $ 32,380,363 | $ 3,097,302 |
| Operating income | $ 743,935 | $ 57,124,203 | $ 16,356,654 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Operating subsidies | $ | $ 10,496,085 | $ 27,327,125 |
| Program principal forgiveness, net | | (3,260,594) | (6,044,126) |
| Grant expense | | | |
| Total nonoperating revenues | $ 0 | $ 7,235,491 | $ 21,282,999 |
| Income before transfers | $ 743,935 | $ 64,359,694 | $ 37,639,653 |
| **TRANSFERS** | | | |
| Transfers to other funds | $ (33,216) | $ | $ |
| Total transfers | $ (33,216) | $ 0 | $ 0 |
| Change in net position | $ 710,719 | $ 64,359,694 | $ 37,639,653 |
| Net position - Beginning of fiscal year | (31,753,086) | 1,977,418,428 | 651,283,072 |
| Net position - End of fiscal year | $ (31,042,367) | $ 2,041,778,122 | $ 688,922,725 |

| Strategic Water Quality Initiatives Subfund | School Loan Revolving Subfund | Totals |
|---|---|---|
| $ | $ | $ 607,885 |
| 733,725 | 36,896,211 | 283,617,602 |
| 664,373 | 29,520,463 | 86,859,333 |
| | | 368,477 |
| $ 1,398,098 | $ 66,416,674 | $ 371,453,297 |
| | | |
| $ | $ | $ 1,290 |
| | 31,098,256 | 253,922,863 |
| | 1,088,105 | 6,380,479 |
| 33,850 | 4,537,576 | 5,866,888 |
| $ 33,850 | $ 36,723,937 | $ 266,171,520 |
| | | |
| $ 1,364,248 | $ 29,692,737 | $ 105,281,777 |
| | | |
| $ 30,000,000 | | $ 67,823,210 |
| | | (9,304,720) |
| (70,364,784) | | (70,364,784) |
| $ (40,364,784) | $ 0 | $ (11,846,294) |
| | | |
| $ (39,000,536) | $ 29,692,737 | $ 93,435,483 |
| | | |
| $ | $ | $ (33,216) |
| $ 0 | $ 0 | $ (33,216) |
| | | |
| $ (39,000,536) | $ 29,692,737 | $ 93,402,267 |
| 88,605,641 | 1,332,366,417 | 4,017,920,472 |
| $ 49,605,105 | $ 1,362,059,154 | $ 4,111,322,739 |

## MUNICIPAL BOND FUND
## COMBINING SUPPLEMENTAL SCHEDULE OF CASH FLOWS
For the Fiscal Year Ended September 30, 2019

| | Local Municipalities Subfund | State Revolving Subfund: Clean Water Program | State Revolving Subfund: Drinking Water Program |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Bonds, notes, and loans receivable made | $ (585,013,222) | $ (104,688,839) | $ (23,911,349) |
| Principal received on bonds, notes, and loans | 676,641,162 | 176,978,742 | 35,679,514 |
| Interest received on bonds, notes, and loans | 209,778,623 | 43,206,048 | 8,869,040 |
| Cash payments to employees and suppliers for goods and services | (287,422) | (805,452) | (239,720) |
| Other operating revenues | 251,009 | 378,113 | 260,481 |
| Net cash provided by (used in) operating activities | $ 301,370,150 | $ 115,068,612 | $ 20,657,966 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Proceeds from sale of bonds and notes, net | $ 587,993,936 | $ 149,340,885 | $ |
| Payment of debt issuance costs | (2,885,524) | (428,654) | |
| Principal paid on bonds and notes | (678,815,662) | (179,485,560) | (17,330,000) |
| Interest paid on bonds and notes | (219,124,814) | (42,438,216) | (4,237,796) |
| Operating subsidies | | 10,496,085 | 29,051,925 |
| Grant expense | | (3,260,594) | (6,044,126) |
| Receipts for future payment of debt service | 18,527,337 | | |
| Transfers | (33,216) | | |
| Net cash (used in) provided by noncapital financing activities | $ (294,337,943) | $ (65,776,054) | $ 1,440,003 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of investments | $ | $ (378,748,546) | $ (164,988,243) |
| Proceeds from sale and maturities of investments | 587,000 | 250,955,781 | 100,831,154 |
| Net (purchases of) proceeds from sale and maturity of money market funds | (8,056,413) | 46,774,604 | 33,681,655 |
| Interest and dividends on investments | 437,368 | 40,866,971 | 8,781,478 |
| Net cash (used in) provided by investing activities | $ (7,032,045) | $ (40,151,190) | $ (21,693,956) |
| Net increase (decrease) in cash | $ 162 | $ 9,141,368 | $ 404,013 |
| Cash and cash equivalents - Beginning of fiscal year | 549 | 2,659 | 14,849 |
| Cash and cash equivalents - End of fiscal year | $ 711 | $ 9,144,027 | $ 418,862 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES** | | | |
| Operating income | $ 743,935 | $ 57,124,203 | $ 16,356,654 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | |
| Investment income | (443,838) | (45,922,187) | (10,308,472) |
| Other income | (72,578) | (14,490) | |
| Interest expense | 189,402,677 | 30,602,999 | 2,818,931 |
| Debt issuance cost | 4,245,969 | 1,046,405 | |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in other receivables | 12,046,148 | 16,270 | 22,688 |
| (Decrease) in other payables | | | |
| Decrease in bonds, notes, and loans receivable | 95,447,837 | 72,215,412 | 11,768,165 |
| Net cash provided by (used in) operating activities | $ 301,370,150 | $ 115,068,612 | $ 20,657,966 |

**Noncash capital and financing activities:**

The Authority issued Local Government Revenue Bonds to refund debt issued in 2007 and 2011. The $14 million proceeds were deposited immediately into an escrow account for the defeasance of $13.9 million of outstanding revenue bond principal. (Note 8)

The Authority issued State Revolving Fund Revenue Bonds to current refund debt issued in 2007 and 2018. Of the $138.0 million, proceeds were deposited immediately into an escrow account for the defeasance of $34.2 million of outstanding revenue bond principal. In addition, $51.8 million was remitted to repay the outstanding principal and interest on the Series 2018A BAN. (Note 8)

| Strategic Water Quality Initiatives Subfund | School Loan Revolving Subfund | Totals |
|---|---|---|
| $ | $ (432,608,016) | $ (1,146,221,426) |
| 1,735,000 | 78,711,151 | 969,745,569 |
| 733,725 | 30,384,353 | 292,971,789 |
| (34,802) | (5,174,801) | (6,542,197) |
| | | 889,603 |
| $ 2,433,923 | $ (328,687,313) | $ 110,843,338 |
| $ | $ 298,911,895 | $ 1,036,246,716 |
| | | (3,314,178) |
| | (4,000,000) | (879,631,222) |
| | (30,169,184) | (295,970,010) |
| 30,000,000 | | 69,548,010 |
| (70,364,784) | | (79,669,504) |
| | | 18,527,337 |
| | | (33,216) |
| $ (40,364,784) | $ 264,742,711 | $ (134,296,067) |
| $ | $ | $ (543,736,789) |
| | | 352,373,935 |
| (7,718,081) | (19,639,757) | 45,042,008 |
| 664,373 | 30,914,443 | 81,664,633 |
| $ (7,053,708) | $ 11,274,686 | $ (64,656,213) |
| $ (44,984,569) | $ (52,669,916) | $ (88,108,942) |
| 45,012,272 | 1,170,981,247 | 1,216,011,576 |
| $ 27,703 | $ 1,118,311,331 | $ 1,127,902,634 |
| $ 1,364,248 | $ 29,692,737 | $ 105,281,777 |
| (664,373) | (29,520,463) | (86,859,333) |
| | | (87,068) |
| | 31,098,256 | 253,922,863 |
| | 1,088,105 | 6,380,479 |
| (952) | (360,408,723) | (348,324,569) |
| | (637,225) | (637,225) |
| 1,735,000 | | 181,166,414 |
| $ 2,433,923 | $ (328,687,313) | $ 110,843,338 |

# Student Loan Fund

## Combining Supplemental Schedule of Net Position

September 30, 2019

| | Operating Subfund | Bond/Note Subfund | Totals |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 5,290,229 | $ 40,782,669 | $ 46,072,898 |
| Receivable from federal government | 853 | 314,896 | 315,749 |
| Interfund receivable | 470,194 | | 470,194 |
| Interest receivable | 510,277 | 15,291,430 | 15,801,707 |
| Investments | 31,140,974 | 49,981,816 | 81,122,790 |
| Loans receivable, net | 549,227 | 67,889,634 | 68,438,861 |
| Other current assets | | 6,716 | 6,716 |
| Total current assets | $ 37,961,754 | $ 174,267,161 | $ 212,228,915 |
| Noncurrent assets: | | | |
| Investments | $ 13,797,539 | $ 5,199,714 | $ 18,997,253 |
| Notes receivable | 18,000,000 | | 18,000,000 |
| Loans receivable, net | 2,870,054 | 354,765,553 | 357,635,607 |
| Total noncurrent assets | $ 34,667,593 | $ 359,965,267 | $ 394,632,860 |
| Total assets | $ 72,629,347 | $ 534,232,428 | $ 606,861,775 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred loss on refunding | $ | $ 1,856,240 | $ 1,856,240 |
| Deferred outflows related to pensions | 205,169 | | 205,169 |
| Deferred outflows related to OPEB | 489,923 | | 489,923 |
| Total deferred outflows of resources | $ 695,092 | $ 1,856,240 | $ 2,551,332 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable and other liabilities | $ 122,300 | $ 696,510 | $ 818,810 |
| Bonds and notes payable, net | | 63,145,341 | 63,145,341 |
| Interfund payable | | 470,194 | 470,194 |
| Interest payable | | 2,587,690 | 2,587,690 |
| Total current liabilities | $ 122,300 | $ 66,899,735 | $ 67,022,035 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable, net | $ | $ 381,581,457 | $ 381,581,457 |
| Arbitrage payable | | 23,899,843 | 23,899,843 |
| Compensated absences | 112,600 | | 112,600 |
| Net pension liability | 1,876,862 | | 1,876,862 |
| Net OPEB liability | 2,841,389 | | 2,841,389 |
| Total noncurrent liabilities | $ 4,830,851 | $ 405,481,300 | $ 410,312,151 |
| Total liabilities | $ 4,953,151 | $ 472,381,035 | $ 477,334,186 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows related to pensions | $ 161,344 | $ | $ 161,344 |
| Deferred inflows related to OPEB | 373,244 | | 373,244 |
| Total deferred inflows of resources | $ 534,588 | $ 0 | $ 534,588 |
| **NET POSITION** | | | |
| Restricted | $ | $ 63,707,633 | $ 63,707,633 |
| Unrestricted | 67,836,700 | | 67,836,700 |
| Total net position | $ 67,836,700 | $ 63,707,633 | $ 131,544,333 |

## Student Loan Fund
## Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended September 30, 2019

| | Operating Subfund | Bond/Note Subfund | Totals |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Federal revenue, net of special allowance | $ 1,702 | $ 5,913 | $ 7,615 |
| Interest revenue | 352,234 | 22,739,540 | 23,091,774 |
| Provision for loan losses | | (295,651) | (295,651) |
| Investment income | 2,434,501 | 2,062,978 | 4,497,479 |
| Miscellaneous | 3,037,246 | 868,403 | 3,905,649 |
| Total operating revenues | $ 5,825,683 | $ 25,381,183 | $ 31,206,866 |
| **OPERATING EXPENSES** | | | |
| Arbitrage expense | $ | $ 1,899,862 | $ 1,899,862 |
| Interest expense | | 15,823,322 | 15,823,322 |
| Debt issuance costs | | | 0 |
| Other administrative expense | 1,483,142 | 4,095,903 | 5,579,045 |
| Total operating expenses | $ 1,483,142 | $ 21,819,087 | $ 23,302,229 |
| Change in net position | $ 4,342,541 | $ 3,562,096 | $ 7,904,637 |
| Net position - Beginning of fiscal year | 63,494,159 | 60,145,537 | 123,639,696 |
| Net position - End of fiscal year | $ 67,836,700 | $ 63,707,633 | $ 131,544,333 |

## Student Loan Fund
## Combining Supplemental Schedule of Cash Flows
For the Fiscal Year Ended September 30, 2019

| | Operating Subfund | Bond/Note Subfund | Totals |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Principal received on bonds, notes, and loans | $ 495,087 | $ 87,868,886 | $ 88,363,973 |
| Interest received on bonds, notes, and loans | 204,590 | 18,278,001 | 18,482,591 |
| Cash payments to employees and suppliers for goods and services | (1,302,586) | (5,418,287) | (6,720,873) |
| Net special allowance payment to federal government | (2,570) | (1,517,490) | (1,520,060) |
| Other operating revenues | 2,680,244 | 767,648 | 3,447,892 |
| Net cash provided by operating activities | $ 2,074,765 | $ 99,978,758 | $ 102,053,523 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Principal paid on bonds and notes | $ | $ (80,167,000) | $ (80,167,000) |
| Interest paid on bonds and notes | | (16,717,654) | (16,717,654) |
| Net cash used in noncapital financing activities | $ 0 | $ (96,884,654) | $ (96,884,654) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of investments | $ (18,293,223) | $ (38,017,569) | $ (56,310,792) |
| Proceeds from sale and maturities of investments | 15,350,033 | 38,878,779 | 54,228,812 |
| Interest and dividends on investments | 1,586,913 | 1,568,442 | 3,155,355 |
| Net cash (used in) provided by investing activities | $ (1,356,277) | $ 2,429,652 | $ 1,073,375 |
| Net increase in cash | $ 718,488 | $ 5,523,756 | $ 6,242,244 |
| Cash and cash equivalents - Beginning of fiscal year | 4,571,741 | 35,258,913 | 39,830,654 |
| Cash and cash equivalents - End of fiscal year | $ 5,290,229 | $ 40,782,669 | $ 46,072,898 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES** | | | |
| Operating income | $ 4,342,541 | $ 3,562,096 | $ 7,904,637 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | |
| Investment income | (2,434,501) | (2,062,978) | (4,497,479) |
| Interest expense | | 15,823,322 | 15,823,322 |
| Pension expense | 377,484 | | 377,484 |
| OPEB expense | (71,085) | | (71,085) |
| Changes in assets and liabilities: | | | |
| (Increase) in other receivables | (71,841) | (671,439) | (743,280) |
| (Decrease) increase in other payables | (44,232) | 1,768,509 | 1,724,277 |
| (Increase) decrease in bonds, notes, and loans receivable | (23,601) | 81,559,248 | 81,535,647 |
| Net cash provided by operating activities | $ 2,074,765 | $ 99,978,758 | $ 102,053,523 |

# STATISTICAL SECTION

## Index to Statistical Section

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

**CONTENTS** Page

### Financial Trends

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



### Revenue Capacity

These schedules contain information to help the reader assess the Michigan Finance Authority's most significant revenue sources: interest revenue and investment income.



### Debt Capacity

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



### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.



### Operating Information

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

## SOURCES

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

## NOTES

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

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

## NET POSITION BY COMPONENT – LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Governmental activities | | | | |
| Net investment in capital assets | $ | $ | $ | $ |
| Restricted | | | | |
| Unrestricted | (934,587,165) | (946,780,387) | (4,037,636,777) | (3,629,864,549) |
| Total governmental activities | $ (934,587,165) | $ (946,780,387) | $ (4,037,636,777) | $ (3,629,864,549) |
| Business-type activities | | | | |
| Net investment in capital assets | $ | $ | $ | $ |
| Restricted | 2,278,901,688 | 2,559,653,575 | 2,889,999,000 | 3,243,460,437 |
| Unrestricted | 100,527,493 | 129,518,375 | 155,074,009 | 194,165,721 |
| Total business-type activities | $ 2,379,429,181 | $ 2,689,171,950 | $ 3,045,073,009 | $ 3,437,626,158 |
| Primary government | | | | |
| Net investment in capital assets | $ | $ | $ | $ |
| Restricted | 2,278,901,688 | 2,559,653,575 | 2,889,999,000 | 3,243,460,437 |
| Unrestricted | (834,059,672) | (817,262,012) | (3,882,562,767) | (3,435,698,828) |
| Total primary government activities | $ 1,444,842,016 | $ 1,742,391,563 | $ (992,563,767) | $ (192,238,391) |
| Reconciliation of net position | | | | |
| Beginning net position | $ 1,312,978,007 | $ 1,444,842,017 | $ 1,742,391,563 | $ (992,563,767) |
| Restatement of beginning net position | | | | |
| Beginning net position restated | 1,312,978,007 | 1,444,842,017 | 1,742,391,563 | (992,563,767) |
| Statement of Activities – Changes in net position | 131,864,008 | 297,549,548 | (2,734,955,327) | 800,325,376 |
| Change in reporting entity | | | | |
| Ending net position | $ 1,444,842,016 | $ 1,742,391,563 | $ (992,563,767) | $ (192,238,391) |

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ |
| (3,251,841,276) | (2,837,502,355) | (1,104,934,469) | (1,069,944,526) | (1,039,638,869) | (1,021,625,025) |
| $ (3,251,841,276) | $ (2,837,502,355) | $ (1,104,934,469) | $ (1,069,944,526) | $ (1,039,638,869) | $ (1,021,625,025) |
| $ | $ | $ | $ | $ | $ |
| 3,532,780,377 | 3,889,861,924 | 3,843,435,715 | 4,021,810,912 | 4,174,073,228 | 4,272,913,314 |
| 140,058,333 | 351,221 | 133,391,594 | 144,153,133 | 40,082,449 | 45,561,741 |
| $ 3,672,838,710 | $ 3,890,213,145 | $ 3,976,827,309 | $ 4,165,964,045 | $ 4,214,155,677 | $ 4,318,475,055 |
| $ | $ | $ | $ | $ | $ |
| 3,532,780,377 | 3,889,861,924 | 3,843,435,715 | 4,021,810,912 | 4,174,073,228 | 4,272,913,314 |
| (3,111,782,943) | (2,837,151,134) | (971,542,875) | (925,791,393) | (999,556,420) | (976,063,284) |
| $ 420,997,434 | $ 1,052,710,790 | $ 2,871,892,840 | $ 3,096,019,519 | $ 3,174,516,808 | $ 3,296,850,030 |
| $ (192,238,391) | $ 420,997,434 | $ 1,052,710,790 | $ 2,871,892,840 | $ 3,096,019,519 | $ 3,174,516,808 |
| (44,536,182) | (6,474,045) | 1,687,475,852 | | (11,582,231) | |
| (236,774,573) | 414,523,389 | 2,740,186,642 | 2,871,892,840 | 3,084,437,288 | 3,174,516,808 |
| 657,772,008 | 638,187,401 | 131,706,198 | 224,126,679 | 90,079,520 | 122,333,222 |
| $ 420,997,435 | $ 1,052,710,790 | $ 2,871,892,840 | $ 3,096,019,519 | $ 3,174,516,808 | $ 3,296,850,030 |

## CHANGES IN NET POSITION – LAST TEN FISCAL YEARS
(Accrual Basis of Accounting)

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Governmental Activities: | | | | |
| Tobacco Settlement | $ 74,601,941 | $ 75,326,475 | $ 76,117,002 | $ 76,464,845 |
| Unemployment Obligation | | | 3,342,293,493 | 61,578,812 |
| Total Governmental Activities | $ 74,601,941 | $ 75,326,475 | $ 3,418,410,495 | $ 138,143,658 |
| Business-Type Activities: | | | | |
| Municipal Bond Fund | $ 371,377,998 | $ 232,512,497 | $ 205,622,188 | $ 175,214,865 |
| Student Loan Fund | 46,082,852 | 29,760,349 | 29,775,260 | 12,634,982 |
| Non-Major Funds | 22,408,595 | 20,949,314 | 20,240,504 | 18,925,622 |
| Total Business-Type Activities | $ 439,869,445 | $ 283,222,160 | $ 255,637,953 | $ 206,775,470 |
| Total primary governmental expenses | $ 514,471,386 | $ 358,548,635 | $ 3,674,048,448 | $ 344,919,128 |
| **Program Revenues** | | | | |
| Governmental Activities: | | | | |
| Charges for Services: | | | | |
| Tobacco Settlement | $ 66,808,438 | $ 60,627,688 | $ 62,345,793 | $ 85,176,464 |
| Unemployment Obligation | | | 260,695,144 | 457,682,213 |
| Operating Grants and Contributions | | 2,505,565 | 3,513,169 | 3,057,208 |
| Total governmental activities program revenues | $ 66,808,438 | $ 63,133,253 | $ 326,554,106 | $ 545,915,885 |
| Business-Type Activities: | | | | |
| Charges for Services: | | | | |
| Municipal Bond Fund | $ 176,958,700 | $ 172,141,320 | $ 164,066,340 | $ 160,677,065 |
| Student Loan Fund | 51,098,084 | 56,975,160 | 52,846,772 | 50,316,931 |
| Non-Major Funds | 23,540,158 | 25,246,681 | 25,840,665 | 25,846,255 |
| Operating Grants and Contributions | 324,401,599 | 338,601,770 | 368,785,238 | 362,488,368 |
| Total business-type activities program revenues | $ 575,998,541 | $ 592,964,931 | $ 611,539,015 | $ 599,328,619 |
| Total primary government program revenues | $ 642,806,979 | $ 656,098,184 | $ 938,093,121 | $ 1,145,244,504 |
| **Net (Expenses)/Revenues** | | | | |
| Governmental activities | $ (7,793,503) | $ (12,193,222) | $ (3,091,856,389) | $ 407,772,227 |
| Business-type activities | 136,129,096 | 309,742,771 | 355,901,062 | 392,553,149 |
| Total primary government net (expenses)/revenue | $ 128,335,593 | $ 297,549,549 | $ (2,735,955,327) | $ 800,325,376 |
| **General Revenues and Other Changes in Net Position** | | | | |
| Governmental activities: | | | | |
| Interest and investment earnings | $ 3,138,281 | $ | $ | $ |
| Payments from State of Michigan | | | 1,000,000 | |
| Total governmental activities | $ 3,138,281 | $ 0 | $ 1,000,000 | $ 0 |
| Business-type activities: | | | | |
| Interest and investment earnings | $ 390,136 | $ | $ | $ |
| Transfers | | | | |
| Total business-type activities | 390,136 | $ 0 | $ 0 | $ 0 |
| Total primary government | $ 3,528,417 | $ 0 | $ 1,000,000 | $ 0 |
| **Changes in Net Position** | | | | |
| Governmental activities | $ (4,655,222) | $ (12,193,222) | $ (3,090,856,389) | $ 407,772,227 |
| Business-type activities | 136,519,231 | 309,742,771 | 355,901,062 | 392,553,149 |
| Total primary government net (expenses)/revenue | $ 131,864,009 | $ 297,549,549 | $ (2,734,955,327) | $ 800,325,376 |

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| $ 76,433,036 | $ 77,582,442 | $ 78,767,930 | $ 80,107,968 | $ 81,296,258 | $ 82,139,375 |
| 53,770,005 | 34,323,310 | 27,498,154 | 23,618,041 | 12,441,870 | 1,533,613 |
| $ 130,203,042 | $ 111,905,752 | $ 106,266,084 | $ 103,726,009 | $ 93,738,128 | $ 83,672,988 |
| $ 194,744,405 | $ 304,789,190 | $ 401,315,785 | $ 362,912,620 | $ 344,604,939 | $ 345,841,024 |
| 31,437,830 | 23,144,961 | 22,501,976 | 16,157,520 | 121,831,541 | 23,302,229 |
| 17,414,169 | 16,072,815 | 16,888,493 | 15,386,159 | 16,171,439 | 15,211,805 |
| $ 243,596,404 | $ 344,006,966 | $ 440,706,254 | $ 394,456,299 | $ 482,607,919 | $ 384,355,058 |
| $ 373,799,446 | $ 455,912,718 | $ 546,972,338 | $ 498,182,308 | $ 576,346,047 | $ 468,028,046 |
| $ 60,901,967 | $ 61,722,514 | $ 59,876,880 | $ 67,616,195 | $ 72,254,972 | $ 69,932,847 |
| 459,076,098 | 461,541,373 | 87,296,044 | 67,927,559 | 46,358,017 | 20,655,457 |
| 3,355,458 | 2,980,786 | 4,185,194 | 3,172,198 | 5,430,796 | 11,098,528 |
| $ 523,333,523 | $ 526,244,673 | $ 151,358,118 | $ 138,715,952 | $ 124,043,785 | $ 101,686,832 |
| $ 175,603,147 | $ 279,473,753 | $ 273,188,262 | $ 260,752,832 | $ 258,999,954 | $ 283,986,079 |
| 39,652,428 | 30,530,557 | 26,475,278 | 28,612,302 | 27,004,959 | 26,709,387 |
| 25,338,740 | 22,666,073 | 22,917,614 | 20,947,283 | 19,063,626 | 14,310,277 |
| 267,643,615 | 235,185,063 | 204,739,264 | 273,280,618 | 237,313,243 | 163,668,693 |
| $ 508,237,930 | $ 567,855,446 | $ 527,320,418 | $ 583,593,035 | $ 542,381,782 | $ 488,674,436 |
| $ 1,031,571,453 | $ 1,094,100,119 | $ 678,678,536 | $ 722,308,987 | $ 666,425,567 | $ 590,361,268 |
| $ 393,130,482 | $ 414,338,921 | $ 45,092,034 | $ 34,989,943 | $ 30,305,657 | $ 18,013,844 |
| 264,641,526 | 223,848,480 | 86,614,164 | 189,136,736 | 59,773,863 | 104,319,378 |
| $ 657,772,008 | $ 638,187,401 | $ 131,706,198 | $ 224,126,679 | $ 90,079,520 | $ 122,333,222 |
| $ | $ | $ | $ | $ | $ |
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| $ | $ | $ | $ | $ | $ |
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| $ 393,130,482 | $ 414,338,921 | $ 45,092,034 | $ 34,989,943 | $ 30,305,657 | $ 18,013,844 |
| 264,641,526 | 223,848,480 | 86,614,164 | 189,136,736 | 59,773,863 | 104,319,378 |
| $ 657,772,008 | $ 638,187,401 | $ 131,706,198 | $ 224,126,679 | $ 90,079,520 | $ 122,333,222 |

## FUND BALANCES, GOVERNMENTAL FUNDS – LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| General Fund | | | | |
| Restricted for administrative expenditures | $ | $ 361,592 | $ 1,417,351 | $ 1,570,740 |
| Total general fund | $ 0 | $ 361,592 | $ 1,417,351 | $ 1,570,740 |
| All Other Governmental Funds | | | | |
| Restricted for debt service | $ | $ 103,386,822 | $ 334,858,059 | $ 369,001,232 |
| Total All Other Governmental Funds | $ 0 | $ 103,386,822 | $ 334,858,059 | $ 369,001,232 |
| General Fund | | | | |
| Reserved | $ | $ | $ | $ |
| Unreserved | | | | |
| Total general fund | $ 0 | $ 0 | $ 0 | $ 0 |
| All Other Governmental Funds | | | | |
| Unreserved, reported in: | | | | |
| Special revenue funds | $ 103,998,391 | $ | $ | $ |
| Debt service funds | | | | |
| Total All Other Governmental Funds | $ 103,998,391 | $ 0 | $ 0 | $ 0 |
| Reconciliation of governmental fund balances | | | | |
| Beginning fund balances | $ 103,351,697 | $ 103,998,391 | $ 103,748,413 | $ 336,275,410 |
| Restatement of beginning fund balances | | | | |
| Beginning fund balances - restated | 103,351,697 | 103,998,391 | 103,748,413 | 336,275,410 |
| Excess of revenues and other sources over (under) expenditures and other uses | 646,694 | (249,977) | 232,526,997 | 34,296,562 |
| Change in accounting entity | | | | |
| Ending fund balances | $ 103,998,391 | $ 103,748,414 | $ 336,275,410 | $ 370,571,972 |

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

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| $ 1,529,391 | $ 1,488,737 | $ 1,547,571 | $ 1,604,306 | $ 1,710,111 | $ 1,821,972 |
| $ 1,529,391 | $ 1,488,737 | $ 1,547,571 | $ 1,604,306 | $ 1,710,111 | $ 1,821,972 |
| $ 360,013,265 | $ 370,019,113 | $ 1,647,976,383 | $ 1,288,818,956 | $ 831,102,617 | $ 269,340,544 |
| $ 360,013,265 | $ 370,019,113 | $ 1,647,976,383 | $ 1,288,818,956 | $ 831,102,617 | $ 269,340,544 |
| $ | $ | $ | $ | $ | $ |
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| $ | $ | $ | $ | $ | $ |
| $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| $ 370,571,972 | $ 361,542,656 | $ 371,507,850 | $ 1,649,523,954 | $ 1,290,423,262 | $ 832,812,728 |
| | | 1,667,089,329 | | | |
| 370,571,972 | 361,542,656 | 2,038,597,179 | 1,649,523,954 | $ 1,290,423,262 | $ 832,812,728 |
| (9,029,316) | 9,965,195 | (389,073,225) | (359,100,692) | (457,610,534) | (561,650,212) |
| $ 361,542,656 | $ 371,507,850 | $ 1,649,523,954 | $ 1,290,423,262 | $ 832,812,728 | $ 271,162,516 |

## CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS – LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

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

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| | 61,251,890 | 62,047,158 | 60,190,534 | 61,747,402 | 72,242,619 | 70,092,949 |
| | 455,734,806 | 470,358,318 | 92,152,544 | 72,352,384 | 52,032,168 | 28,971,863 |
| | 3,414,231 | 2,972,054 | 4,185,194 | 3,172,198 | 5,430,795 | 8,388,162 |
| | | | | 68,126 | 100,675 | 2,710,366 |
| | $ 520,400,927 | $ 535,377,530 | $ 156,528,272 | $ 137,340,110 | $ 129,806,257 | $ 110,163,340 |
| | $ | $ | $ | $ | $ | $ |
| | 181,516,062 | 168,604,369 | 150,558,270 | 130,517,069 | 111,851,695 | 89,268,192 |
| | 347,500,000 | 356,375,000 | 394,705,000 | 365,565,000 | 475,225,000 | 582,185,000 |
| | 414,181 | 432,966 | 338,227 | 358,733 | 340,096 | 360,360 |
| | $ 529,430,243 | $ 525,412,335 | $ 545,601,497 | $ 496,440,802 | $ 587,416,791 | $ 671,813,552 |
| | $ (9,029,316) | $ 9,965,195 | $ (389,073,225) | $ (359,100,692) | $ (457,610,534) | $ (561,650,212) |
| | $ | $ | $ | $ | $ | $ |
| | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| | $ (9,029,316) | $ 9,965,195 | $ (389,073,225) | $ (359,100,692) | $ (457,610,534) | $ (561,650,212) |
| | 99.92% | 99.92% | 99.94% | 99.93% | 99.94% | 99.95% |

## REVENUE GENERATING ASSETS – LAST TEN FISCAL YEARS

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Interest bearing notes, loans, and bonds | | | | |
| Notes Receivable | $ 1,215,319,712 | $ 981,606,210 | $ 700,614,691 | $ 694,708,027 |
| Loans Receivable | 4,350,826,462 | 4,177,428,407 | 4,099,707,272 | 3,892,346,982 |
| Bonds Receivable | 693,146,562 | 789,220,626 | 837,706,945 | 754,073,600 |
| Total notes, loans, and bonds receivable | $ 6,259,292,736 | $ 5,948,255,243 | $ 5,638,028,908 | $ 5,341,128,609 |
| Interest Revenue | 258,801,718 | 241,011,340 | 226,140,392 | 214,690,199 |
| Average rate of return (%) | 4.13% | 3.95% | 3.90% | 3.91% |
| Investments | | | | |
| Government money market funds | $ 999,028,505 | $ 1,232,117,816 | $ 1,750,470,369 | $ 1,731,654,187 |
| Repurchase agreements | 1,162,836,903 | 855,309,422 | 643,578,360 | 600,360,391 |
| State and municipal general obligation bonds | 88,020,000 | 100,386,577 | 104,500,357 | 99,101,561 |
| Commercial paper | 178,853,936 | 318,573,594 | 18,966,642 | 10,570,000 |
| U.S. Treasury obligations | 267,782,777 | 61,019,651 | 60,709,664 | 115,422,782 |
| U.S. government agency securities | | | 169,254,528 | 151,108,529 |
| Certificates of Deposit | | | | |
| Total Investments | $ 2,696,522,121 | $ 2,567,407,060 | $ 2,747,479,920 | $ 2,708,217,450 |
| Investment Revenue | 54,075,962 | 63,750,490 | 68,245,001 | 28,280,977 |
| Average rate of return (%) | 2.01% | 2.42% | 2.57% | 1.04% |

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

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

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| $ 713,393,485 | $ 734,979,831 | $ 508,078,921 | $ 440,929,380 | $ 408,364,040 | $ 389,025,373 |
| 3,674,415,895 | 3,566,108,490 | 3,181,131,858 | 2,988,638,010 | 2,815,276,859 | 2,646,774,011 |
| 2,778,216,810 | 3,663,371,762 | 4,366,119,285 | 4,409,850,135 | 4,501,345,657 | 4,404,929,863 |
| $ 7,166,026,190 | $ 7,964,460,083 | $ 8,055,330,064 | $ 7,839,417,525 | $ 7,724,986,556 | $ 7,440,729,247 |
| 223,429,760 | 319,751,659 | 309,941,739 | 291,937,763 | 285,718,925 | 307,551,917 |
| 3.57% | 4.23% | 3.87% | 3.67% | 3.67% | 4.06% |
| $ 1,466,314,120 | $ 1,587,879,583 | $ 1,427,183,155 | $ 1,296,562,463 | $ 1,207,937,043 | $ 1,379,320,843 |
| 547,134,875 | 502,590,872 | 481,067,669 | 437,272,505 | 386,005,081 | 321,910,759 |
| 98,202,224 | 120,027,408 | 190,775,695 | 193,910,681 | 160,995,868 | 131,219,931 |
| 4,145,000 | 4,651,991 | 10,096,103 | 26,574,222 | 45,736,291 | - |
| 111,191,625 | 107,570,359 | 27,013,940 | 97,232,554 | 495,971,968 | 50,101,114 |
| 140,883,355 | 132,547,543 | 296,533,442 | 471,575,470 | 138,416,181 | 578,049,358 |
| | | 8,153,450 | 16,348,449 | 16,117,450 | 8,924,000 |
| $ 2,367,871,199 | $ 2,455,267,756 | $ 2,440,823,454 | $ 2,539,476,344 | $ 2,451,179,882 | $ 2,469,526,005 |
| 38,370,176 | 36,976,591 | 38,786,396 | 41,001,845 | 65,554,180 | 106,336,126 |
| 1.51% | 1.53% | 1.58% | 1.65% | 2.63% | 4.32% |

## INTEREST REVENUE BY TYPE OF BORROWER – 2010 AND 2019

| | 2010 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Borrowers | Percentage of Total | Interest Revenue | Percentag e of Total | Number of Borrowers | Percentage of Total | Interest Revenue | Percentage of Total |
| Type of Borrower: | | | | | | | | |
| Local governments | 1,225 | 0.26% | $177,703,932 | 68.66% | 1,384 | 1.34% | $284,460,143 | 92.49% |
| Student loans | 470,653 | 99.74% | 81,097,787 | 31.34% | 101,993 | 98.66% | 23,091,774 | 7.51% |
| Total | 471,878 | 100.00% | $258,801,719 | 100.00% | 103,377 | 100.00% | $307,551,917 | 100.00% |

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

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

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

## RATIOS OF OUTSTANDING DEBT BY TYPE – LAST TEN FISCAL YEARS

| | Governmental-Type Debt | | Business-Type Debt | | Primary Government | | |
|---|---|---|---|---|---|---|---|
| | Asset-Backed Bonds | Revenue Bonds | Notes | Revenue Bonds | Total Outstanding Debt | Percentage of Personal Income | Debt Per Capita |
| 2010 | $1,079,070,007 | $ | $2,212,105,837 | $5,150,526,683 | $ 8,441,702,527 | 2.41% | $ 854 |
| 2011 | 1,087,530,995 | | 1,833,951,978 | 4,918,948,706 | 7,840,431,679 | 2.12% | 793 |
| 2012 | 1,097,984,776 | 3,294,460,454 | 1,382,110,370 | 4,929,219,010 | 10,703,774,610 | 2.77% | 1,082 |
| 2013 | 1,086,929,451 | 2,938,323,629 | 1,284,340,134 | 4,539,391,818 | 9,848,985,032 | 2.52% | 994 |
| 2014 | 1,100,657,133 | 2,529,216,145 | 1,053,636,185 | 6,289,327,980 | 10,972,837,443 | 2.69% | 1,105 |
| 2015 | 1,113,951,069 | 2,106,839,790 | 1,142,655,000 | 7,007,675,707 | 11,371,121,566 | 2.63% | 1,145 |
| 2016 | 1,129,016,028 | 1,657,417,008 | 987,096,000 | 7,124,758,785 | 10,898,287,821 | 2.44% | 1,095 |
| 2017 | 1,145,119,905 | 1,253,161,238 | 827,763,000 | 7,051,704,576 | 10,277,748,719 | 2.23% | 1,030 |
| 2018 | 1,151,950,591 | 758,690,830 | 721,562,771 | 6,989,887,721 | 9,622,091,913 | 1.99% | 963 |
| 2019 | 1,156,635,966 | 174,644,127 | 647,355,900 | 7,086,521,951 | 9,065,157,944 | Unavailable | Unavailable |

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

Personal Income and Population numbers are updated annually to coincide with the demographic and economic indicators. These amounts are not available for the current fiscal year.

## PLEDGED REVENUE DEBT SERVICE COVERAGE – LAST TEN FISCAL YEARS

| Fiscal Year | Gross Revenues | Less: Operating Expenses | Net Available Revenues | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| Tobacco Settlement Asset-Backed Bonds | | | | | | |
| 2010 | $ 67,244,495 | $ 331,192 | $ 66,913,303 | $ 4,475,000 | $ 61,496,020 | 1.01 |
| 2011 | 66,721,943 | 341,128 | 66,380,815 | 4,230,000 | 60,960,690 | 1.02 |
| 2012 | 65,523,253 | 351,361 | 65,171,892 | 4,560,000 | 60,608,761 | 1.00 |
| 2013 | 87,325,579 | 361,902 | 86,963,677 | 9,840,000 | 59,574,215 | 1.25 |
| 2014 | 63,955,969 | 372,759 | 63,583,210 | 5,060,000 | 58,514,030 | 1.05 |
| 2015 | 64,308,108 | 383,942 | 63,924,166 | 5,785,000 | 58,135,557 | 1.00 |
| 2016 | 63,803,150 | 395,460 | 63,407,690 | 5,665,000 | 57,741,482 | 1.00 |
| 2017 | 64,081,168 | 407,324 | 63,673,844 | 6,350,000 | 57,318,369 | 1.00 |
| 2018 | 74,462,665 | 419,544 | 74,043,121 | 17,495,000 | 56,505,596 | 1.00 |
| 2019 | Unavailable | Unavailable | Unavailable | Unavailable | Unavailable | Unavailable |

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

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

SOURCE: Michigan Department of Treasury

## DEMOGRAPHIC AND ECONOMIC INDICATORS – LAST NINE CALENDAR YEARS

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Population[1] *(in thousands)* | 9,884 | 9,882 | 9,897 | 9,919 | 9,931 | 9,933 | 9,952 | 9,976 | 9,996 |
| Total Personal Income[2] *(in billions)* | $349.6 | $370.7 | $386.6 | $390.2 | $408.6 | $432.4 | $446.5 | $461.5 | $484.0 |
| Per Capita Income[2] | $35,391 | $37,512 | $39,059 | $39,361 | $41,147 | $43,533 | $44,868 | $46,258 | $48,423 |
| Unemployment Rate[3] | 12.6% | 10.4% | 9.1% | 8.8% | 7.2% | 5.4% | 5.0% | 4.6% | 4.1% |

NOTE: Most recent calendar year for which data is available: 2018.

SOURCE: [1] 2010-2018 figures are December 2018 release.

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

[3] Michigan Department of Technology, Management and Budget, Bureau of Labor Market Information and Strategic Initiatives; and U.S. Department of Labor, Bureau of Labor Statistics.

## CLASSIFIED EMPLOYEES BY FUNCTION – LAST TEN FISCAL YEARS

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Classified Employees by Function | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Tobacco Settlement | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Unemployment Obligation | 0.0 | 0.0 | 1.0 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total Governmental Activity Employees | 0.5 | 0.5 | 1.5 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Business-Type Activities: | | | | | | | | | | |
| Municipal Bond Fund | 11.5 | 11.0 | 10.5 | 12.5 | 11.5 | 11.5 | 10.5 | 9.0 | 8.0 | 9.0 |
| Student Loan Fund | 29.5 | 16.0 | 14.0 | 13.5 | 11.5 | 12.0 | 13.5 | 8.0 | 6.0 | 9.0 |
| Non-Major Funds: | | | | | | | | | | |
| Michigan Guaranty Agency | 51.5 | 35.0 | 34.0 | 31.5 | 32.0 | 32.0 | 32.0 | 36.0 | 39.0 | 38.0 |
| Michigan Finance Authority | 2.0 | 2.0 | 2.5 | 3.0 | 2.0 | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Public School Academy Facilities Fund | 1.0 | 1.0 | 0.5 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.5 |
| Total Business-Type Activity Employees | 95.5 | 65.0 | 61.5 | 61.5 | 58.0 | 59.0 | 59.0 | 56.0 | 56.0 | 58.5 |
| Total Full-Time Equivalent Employees | 96.0 | 65.5 | 63.0 | 62.5 | 59.0 | 60.0 | 60.0 | 57.0 | 57.0 | 59.5 |

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

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

SOURCE: Michigan Department of Treasury

## OPERATING INDICATORS BY FUNCTION – LAST TEN FISCAL YEARS

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Governmental Activities: | | | | | | | | | | |
| Tobacco Settlement | | | | | | | | | | |
| Bonds Issued | | | | | | | | | | |
| Unemployment Obligation | | | | | | | | | | |
| Bonds Issued | | | 4 | | | | | | | |
| Business-Type Activities: | | | | | | | | | | |
| Municipal Bond Fund | | | | | | | | | | |
| Bonds Issued | 6 | 13 | 12 | 5 | 10 | 12 | 16 | 6 | 8 | 6 |
| Notes Issued | 9 | 7 | 7 | 6 | 9 | 12 | 9 | 6 | 4 | 3 |
| Student Loan Fund | | | | | | | | | | |
| Bonds Issued | | | | 1 | 1 | 1 | | | 1 | |
| Notes Issued | | | | | 1 | 2 | 2 | | | |
| Non-Major Funds | | | | | | | | | | |
| Michigan Guaranty Agency | | | | | | | | | | |
| Administrative Wage Garnishment Transactions | 72,919 | 100,629 | 103,754 | 104,224 | 105,929 | 108,374 | 106,945 | 98,052 | 82,631 | 73,679 |
| Rehabilitated Student Loan Transactions | 207 | 4,354 | 4,301 | 4,051 | 3,933 | 4,190 | 3,807 | 3,371 | 2,758 | 1,746 |
| Michigan Finance Authority | | | | | | | | | | |
| Bonds Issued | 21 | 25 | 17 | 10 | 9 | 16 | 10 | 11 | 5 | 10 |
| Public School Academy Facilities Fund | | | | | | | | | | |
| Notes Issued | 5 | 4 | 4 | 3 | 2 | 2 | 3 | 3 | 4 | 2 |

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

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

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

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

SOURCE: Michigan Department of Treasury

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# Other Information

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

## Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority (the "Authority") as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 19, 2019.

### Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

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

**Purpose of This Report**

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

Plante & Moran, PLLC

December 19, 2019

# Glossary of Abbreviations and Terms

**Authority—**Michigan Finance Authority.

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

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

**FFEL Program—**Federal Family Education Loan Program.

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

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

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

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

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

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

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

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

**LEO—**Labor and Economic Opportunity.

**LIBOR—**London Interbank Offered Rate.

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

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

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

**MGA—**Michigan Guaranty Agency.

**MI-LOAN—**Michigan Alternative Student Loan.

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

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

**MSA—**Master Settlement Agreement.

**MSERS—**Michigan State Employees' Retirement System.

**PLUS Loans—**Loans made to parents of dependent undergraduates.

**Significant Deficiency in Internal Control Over Financial Reporting—**A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

**TSR—**Tobacco settlement revenue.

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

**USDOE—**U.S. Department of Education.

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