MICHIGAN EDUCATION TRUST

2014-2015 Annual Report
Contract Plans B & C

www.SETwithMET.com **1-800-MET-4-KID**

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MICHIGAN EDUCATION TRUST PLANS B&C

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

February 2016

Dear MET Participants:

We are pleased to present the Fiscal Year 2014-15 Annual Report for the Michigan Education Trust (MET) program. By law, an actuarial evaluation must be performed annually to determine MET's ability to pay future benefits. The actuary report prepared by Gabriel Roeder Smith & Company for contracts purchased from 1988 to 1990 (referred to in this Annual Report as Plan B and Plan C contracts) as of September 30, 2015, is available on-line at **www.SETwithMET.com**.

If you have not yet purchased full four-year contracts, we encourage you to consider additional purchases this year. The 2016 enrollment period is currently open and ends September 30, 2016.

New to the 2016 enrollment period is the Pay-As-You-Go payment option. This purchase option allows purchasers to buy contracts by credit hours rather than in semester increments. This is a good option even if you intend to purchase one or more semesters in a lump sum as it leaves the contract open to future contributions as opposed to a regular lump sum purchase that is closed and cannot be added to in the future. Once a contract has been purchased, friends and family can also make contributions to the contract.

When purchasing the initial contract you must purchase a minimum of one credit hour in your plan of choice, although you can purchase any amount above the minimum. You may then continue to make payments at any time in minimum increments of $25. Pay-As-You-Go contracts must be completed 45 days before intended use. For more information visit www.SETwithMET.com and select the Purchase Options left navigation button.

Please feel free to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also e-mail MET at **TreasMET@michigan.gov**.

Sincerely,

Nick A. Khouri
MET Chairman
State Treasurer

Robin R. Lott
Executive Director
Michigan Education Trust

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the Michigan Education Trust (MET) program. Board members are responsible for policy development, investment initiatives, program development and implementations. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. The State Treasurer, Nick A. Khouri, serves as Chairperson. Robin Lott, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations. MET is housed within the Michigan Department of Treasury under the Student Financial Services Bureau.

Michigan Education Trust Board of Directors

MR. NICK A. KHOURI, CHAIRPERSON
Ex Officio, State Treasurer

MR. ROBERT A. BOWMAN, PRESIDENT
Pleasure of Governor
President & CEO, MLB Advanced Media, L.P.

DR. THOMAS P. SULLIVAN, VICE PRESIDENT
Pleasure of Governor
President, Cleary University

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Nominated by Speaker of the House
Chairman, The Wiser Group

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Representing Four-Year Public Colleges & Universities
President, Michigan Technological University

MR. ROBERT FERRENTINO, J.D.
Representing Community Colleges
President, Montcalm Community College

MS. SARAH RICHARDVILLE
Nominated by Senate Majority Leader
Dean of Students, Monroe County Middle College

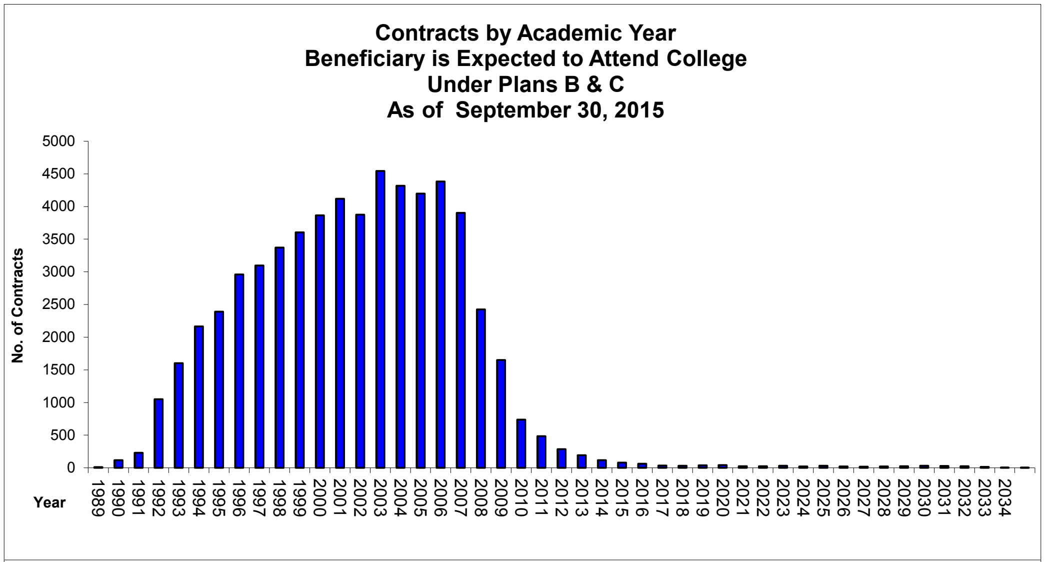
MS. CHERYL BARTHOLIC
Representing General Public
Commercial Group Manager & Sr. Vice President, Independent Bank

MR. ELIYA BOJI
Representing General Public
Boji Group

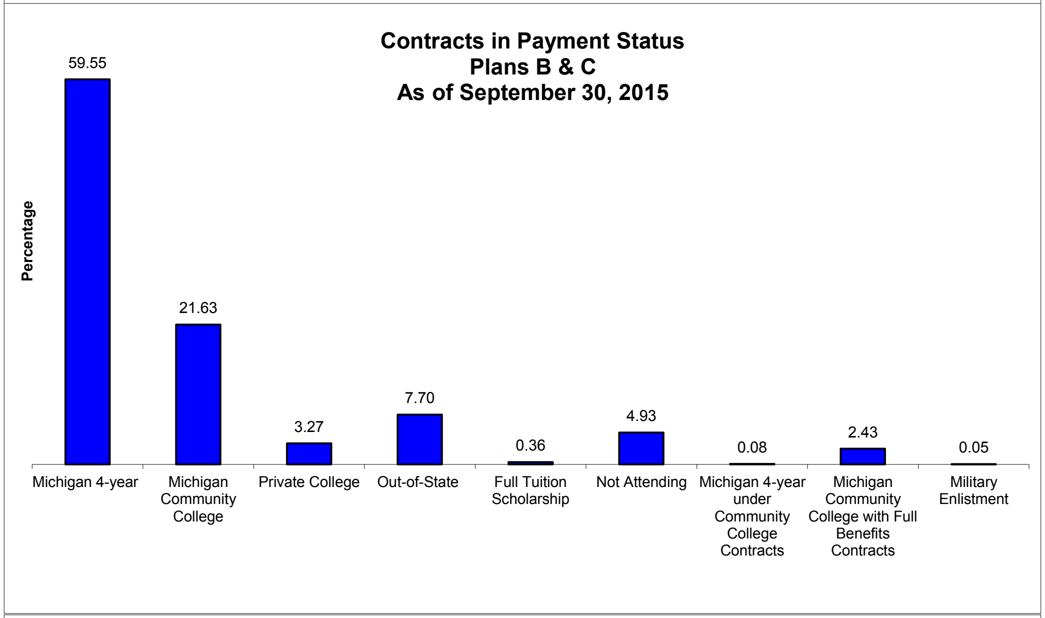
THE MET PROGRAM

MET was established pursuant to Public Act 316 of 1986 as Michigan's prepaid tuition program. MET is a "qualified tuition program" under Section 529 of the Internal Revenue Code which provides tax exemption for the trust and tax exemption of earnings for contract participants who use MET funds to pay for qualified higher education expenses.

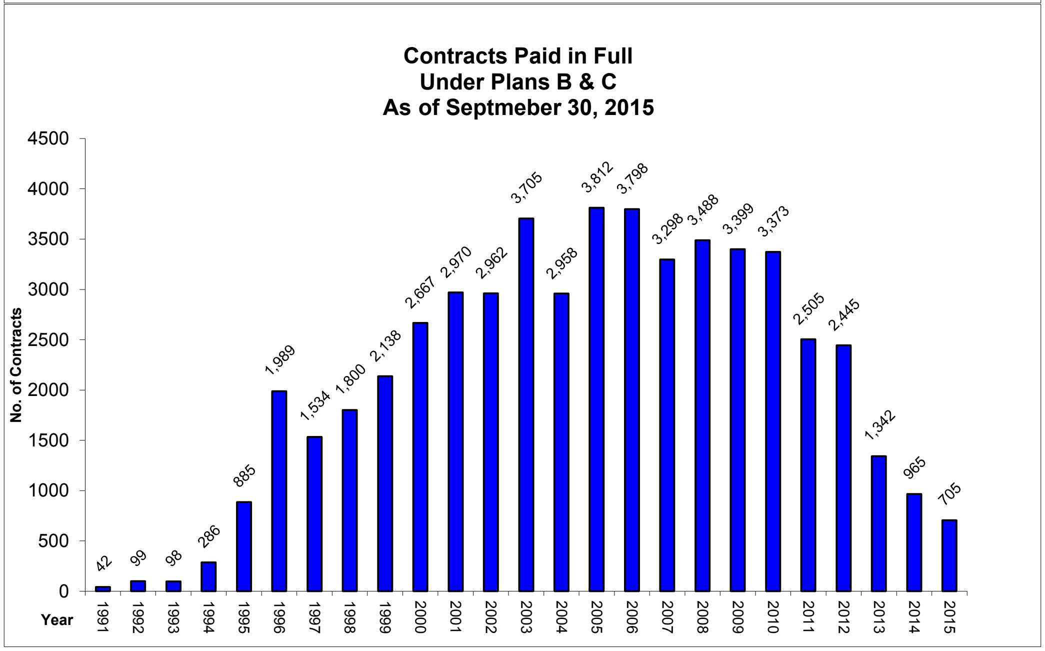
MET allows parents, grandparents, businesses, and others to make contributions at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.



Contracts by Academic Year
Beneficiary is Expected to Attend College
Under Plans B & C
As of September 30, 2015
No. of Contracts
Year



Contracts in Payment Status
Plans B & C
As of September 30, 2015
Percentage
59.55
21.63
3.27
7.70
0.36
4.93
0.08
2.43
0.05
Michigan 4-year
Michigan Community College
Private College
Out-of-State
Full Tuition Scholarship
Not Attending
Michigan 4-year under Community College Contracts
Michigan Community College with Full Benefits Contracts
Military Enlistment



Contracts Paid in Full
Under Plans B & C
As of Septmeber 30, 2015
No. of Contracts
Year
42
99
98
286
885
1,989
1,534
1,800
2,138
2,667
2,970
2,962
3,705
2,958
3,812
3,798
3,298
3,488
3,399
3,373
2,505
2,445
1,342
965
705

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

December 2, 2015

Ms. Robin Lott
Executive Director
Michigan Education Trust
P.O. Box 30198
Lansing, MI 48909

Dear Ms. Lott:

At your request, Gabriel, Roeder, Smith & Company ("GRS") has performed an actuarial soundness valuation of the Michigan Education Trust - Plans B and C ("MET") as of September 30, 2015. Although the term "actuarial soundness" is not specifically defined, the purpose of this actuarial valuation is to evaluate the financial status of the program as of September 30, 2015.

The actuarial soundness valuation results are based upon data and information, furnished by MET, concerning program benefits, financial transactions, and beneficiaries of MET as of September 30, 2015. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data.

As of September 30, 2015, the present value of all future tuition obligations under contracts outstanding (and including estimated future administrative expenses) at that date is $103.3 million. Fund assets as of September 30, 2015, including only the market value of program assets, are $132.6 million. The difference between the fund assets of $132.6 million and program obligations of $103.3 million represents a program surplus of $29.3 million.

The actuarial soundness valuation involves actuarial calculations that require assumptions about future events. The major actuarial assumptions used in the actuarial soundness valuation were based on an experience review for the period from October 1, 2010, to September 30, 2013, and were adopted for use commencing with the September 30, 2014, valuation. The major actuarial assumptions used in the actuarial soundness valuation were provided by and are the responsibility of MET. All calculations have been made in conformity with generally accepted actuarial principles and practices commonly applicable to similar types of arrangements.

To the best of our knowledge, the information contained in the actuarial soundness valuation report is accurate and fairly presents the actuarial position of the Michigan Education Trust - Plans B and C as of September 30, 2015.

This actuarial certification is provided to the Board of Trustees in conjunction with the MET actuarial valuation as of September 30, 2015. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full actuarial soundness valuation report as of September 30, 2015, which is available on the MET website, and is an integral part of this certification.

Paul T. Wood and Lance Weiss are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

Paul T Wood

Paul T. Wood, A.S.A., M.A.A.A., F.C.A.
Consultant

Lance J. Weiss

Lance Weiss, E.A., M.A.A.A., F.C.A.
Senior Consultant

Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • www.audgen.michigan.gov

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

Mr. Nick A. Khouri, State Treasurer and Chair
Michigan Education Trust Board of Directors
and
Ms. Robin R. Lott, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Khouri and Ms. Lott:

Report on the Financial Statements
We have audited the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows of the Michigan Education Trust Plans B and C, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2015 and September 30, 2014 and the related notes to the financial statements, which collectively comprise the Michigan Education Trust Plans B and C basic financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plans B and C as of September 30, 2015 and September 30, 2014 and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters
As discussed in Note 1, the financial statements present only the Michigan Education Trust Plans B and C. Accordingly, these financial statements do not purport to, and do not, present fairly the financial position and changes in financial position and, where applicable, cash flows of the State of Michigan or its component units, the Michigan Education Trust as a whole, or the Michigan Education Trust Plan D as of and for the fiscal years ended September 30, 2015 and September 30, 2014 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 7, the Michigan Education Trust Plans B and C adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, for the fiscal year ended September 30, 2015. Our opinion is not modified with respect to this matter.

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

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Michigan Education Trust Plans B and C basic financial statements. The transmittal letter, board and leadership information, description of the Michigan Education Trust program, testimonials, and actuarial certification letter are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has 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 it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Education Trust's internal control over financial reporting and compliance.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
December 21, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plans B and C for the fiscal years ended September 30, 2015 and September 30, 2014. MET is an Internal Revenue Code Section 529 qualified tuition program and is a discretely presented component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements.

Generally accepted accounting principles applicable to governments require a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements are interrelated and represent the financial status of MET Plans B and C.

The statement of net position includes the assets, deferred outflows of resources related to pensions, liabilities, deferred inflows of resources related to pensions, and net position at the end of the fiscal year. The statement of revenues, expenses, and changes in net position presents the revenues earned and expenses incurred during the fiscal year. The statement of cash flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Financial Analysis of MET Plans B and C

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Bureau of Investments, Department of Treasury, under the direction of the MET Board of Directors, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plans B and C is invested 100% in fixed income investments.

MET funds are invested to coincide with the students' expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. In 2006, the MET Board of Directors approved an amendment allowing students 15 years from the expected year of high school graduation to completely use MET contract benefits. Prior to that change, students had 9 years to use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are tuition increases (short-term and long-term), investment performance, and college selection by students and purchasers.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Position
As of September 30
(In Thousands)

	2015	2014	2013
Current assets	$ 43,973	$ 39,988	$ 38,006
Noncurrent assets	89,081	102,219	117,627
Total assets	$133,054	$142,207	$155,633
Deferred Outflow Related to Pensions	77	0	0
Total Assets and Deferred Outflows	$133,131	$142,207	$155,633
Current liabilities	$ 24,481	$ 27,478	$ 51,009
Noncurrent liabilities	79,311	89,192	87,267
Total liabilities	$103,792	$116,670	$138,275
Deferred Inflow Related to Pensions	$30	$0	$0
Total Liabilities and Deferred Inflows	$103,822	$0	$0
Net position - Restricted	$ 29,309	$ 25,537	$ 17,358
Total net position	$ 29,309	$ 25,537	$ 17,358

Total net position increased by $3.8 million in fiscal year 2014-15 and $8.2 million in fiscal year 2013-14.

Current assets increased by $4.0 million in fiscal year 2014-15 and increased by $2.0 million in fiscal year 2013-14. The increase in both fiscal years resulted primarily because of the increase in cash and cash equivalents from investments that were redeemed and not invested.

Noncurrent assets decreased by $13.1 in fiscal year 2014-15 and decreased by $15.4 million in fiscal year 2013-14. The decrease in both fiscal years resulted due to MET Plans B and C being closed to new contracts and the liquidation of investments to meet the increased tuition benefit payments.

Total liabilities decreased by $12.9 million in fiscal year 2014-15 and decreased by $21.6 million in fiscal year 2013-14. The tuition benefits payable decrease reflected the increase in tuition contract payments made to colleges.

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

	2015	2014	2013
Operating revenues			
Interest and dividends income	$ 2,480	$ 2,544	$ 3,206
Net increase (decrease) in the fair value of investments	(415)	(1,237)	(2,252)
Other miscellaneous income	26	31	26
Total operating revenues	$ 2,091	$ 1,338	$ 981
Operating expenses			
Salaries and other administrative expenses	$ 485	$ 558	$ 605
Net increase (decrease) in the present value of tuition benefits payable	(2,414)	(7,400)	385
Total operating expenses	$ (1,929)	$ 6,841	$ 990
Operating income (loss)	$ 4,020	$ 8,180	$ (9)
Increase (Decrease) in net position	$ 4,020	$ 8,180	$ (9)
Net Position – Beginning of fiscal year	25,537	17,358	17,366
Cumulative effect of a change in accounting principle (Note 7)	(247)		
Restated beginning net position	25,290		
Net position - End of fiscal year	$ 29,309	$ 25,537	$ 17,358

The **net increase (decrease) in the present value of tuition benefits payable** decreased by $5.0 million in fiscal year 2014-15 and by $7.8 million in fiscal year 2013-14. The decrease in both fiscal years resulted from the change in the present value of the future tuition benefit obligation compared to actuarial tuition assumptions.

Condensed Financial Information
From the Statement of Cash Flows
Fiscal Years Ended September 30
(In Thousands)

	2015	2014	2013
Net cash provided (used) by:			
Operating activities	$ (8,475)	$ (7,394)	$ (13,364)
Investing activities	12,723	14,172	(10,742)
Net cash provided (used) - All activities	$ 4,248	$ 6,778	$ (24,105)
Cash and cash equivalents - Beginning of fiscal year	34,305	27,527	51,632
Cash and cash equivalents - End of fiscal year	$ 38,552	$ 34,305	$ 27,527

The **net cash used by operating activities** increased by $1.1 million in fiscal year 2014-15 and decreased by $6.0 million in fiscal year 2013-14. The increase in fiscal year 2014-15 was primarily the result of the increase in tuition contract payments to colleges and refund designees. The decrease in cash used by operating activities in fiscal year 2013-14 was the result of a decrease in tuition contract payments to colleges and refund designee. Tuition contract payments decreased because MET has fulfilled its contractual obligations for majority of these contracts and has not offered additional enrollments since 1990.

The **net cash provided by investing activities** decreased by $1.4 million in fiscal year 2014-15 and increased by $24.9 million in fiscal year 2013-14. The decrease in cash provided by investing activities in fiscal year 2014-15 is the result of a decrease in investments purchased. The increase in cash provided in fiscal year 2013-14 resulted when some investments matured and proceeds from the long-term portfolio were used to make tuition benefit payments.

Overall, the **cash and cash equivalents at the end of the fiscal year** increased by $4.2 million in fiscal year 2014-15 and increased by $6.8 million in fiscal year 2013-14.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State-appropriated funds remain flat.

MET Plans B and C reached the peak matriculation period during fiscal year 2005-06. During fiscal year 2014-15, 1,082 students will be eligible to begin using MET contracts to attend college along with 4,599 students currently in the process of using MET contracts. After fiscal year 2014-15, the number of students expected to enroll in college under MET Plans B and C will continue to decrease significantly because MET has fulfilled its contractual obligations for the majority of these contract holders and has not offered additional enrollments in these plans since 1990.

MICHIGAN EDUCATION TRUST PLANS B AND C
Statement of Net Position
As of September 30

	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents (Notes 2 and 3)	$ 38,552,320	$ 34,304,793
Amounts due from MET Program (Plan D)	3,177,712	3,092,071
Amounts due from primary government	1,690,277	2,076,698
Interest and dividends receivable	552,366	514,788
Total Current Assets	$ 43,972,675	$ 39,988,349
Noncurrent Assets:		
Investments (Note 3)	89,080,926	102,219,129
Total Assets	$ 133,053,600	$ 142,207,479
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS	$ 77,177	$ -
Total Assets and Deferred Outflows of Resources	$ 133,130,777	
LIABILITIES		
Current Liabilities:		
Tuition benefits payable (Note 4)	$ 24,471,966	$ 27,469,263
Compensated absences	8,903	8,733
Total Current Liabilities	$ 24,480,869	$ 27,477,996
Noncurrent Liabilities:		
Tuition benefits payable (Note 4)	78,827,549	88,971,286
Net pension liability (Note 6)	$ 254,013	-
Compensated absences	229,459	221,053
Total Liabilities	$ 103,791,890	$ 116,670,335
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS	$ 29,711	$ -
Total Liabilities and Deferred Inflows of Resources	$ 103,821,601	$ 116,670,335
NET POSITION		
Net Position - Restricted	$ 29,309,177	$ 25,537,144
Total Net Position	$ 29,309,177	$ 25,537,144

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

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Revenues, Expenses, and Changes in Net Position

Fiscal Years Ended September 30

	2015	2014
OPERATING REVENUES		
Interest and dividends income	$ 2,480,036	$ 2,544,075
Net increase (decrease) in the fair value of investments	(415,440)	(1,236,698)
Other miscellaneous income	25,549	30,850
Total Operating Revenues	$ 2,090,145	$ 1,338,227
OPERATING EXPENSES		
Salaries and other administrative expenses	$ 484,705	$ 558,352
Net increase (decrease) in the present value of tuition benefits payable	(2,414,090)	(7,399,649)
Total Operating Expenses	$ (1,929,386)	$ (6,841,297)
Operating Income (Loss)	$ 4,019,531	$ 8,179,524
Increase (Decrease) in net position	$ 4,019,531	$ 8,179,524
Net Position - Beginning of fiscal year	25,537,144	17,357,619
Cumulative effect of a change in accounting principle (Note 7)	(247,498)	0
Restated beginning net position	25,289,646	
Net Position - End of Fiscal Year	$ 29,309,177	$ 25,537,144

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

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Cash Flows

Fiscal Years Ended September 30

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and dividends received	$ 2,442,458	$ 2,651,995
Benefits paid	(10,533,207)	(9,124,931)
Administrative and other expenses paid	(410,037)	(951,609)
Application and other fees collected	25,549	30,850
Net Cash Provided (Used) by Operating Activities	$ (8,475,237)	$ (7,393,695)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	$ (11,280,346)	$ (26,621,315)
Proceeds from sale and maturities of investment securities	24,003,110	40,792,851
Net Cash Provided (Used) by Investing Activities	$ 12,722,764	$ 14,171,536
Net Cash Provided (Used) - All Activities	$ 4,247,527	$ 6,777,842
Cash and Cash Equivalents - Beginning of Fiscal Year	34,304,793	27,526,951
Cash and Cash Equivalents - End of Fiscal Year	$ 38,552,320	$ 34,304,793
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ 4,019,531	$ 8,179,524
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Unrealized and realized (gains) losses	415,440	1,236,698
Changes in assets and liabilities:		
Amounts due from MET Program (Plan D)	(85,641)	(69,059)
Amounts due from primary government	386,421	4,756,309
Interest and dividend receivable	(37,578)	107,921
Compensated absences	8,576	8,344
Pension Liability	(40,951)	0
Tuition benefits payable	(13,141,034)	(21,613,431)
Net Cash Provided (Used) by Operating Activities	$ (8,475,237)	$ (7,393,695)

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plans B and C have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

b. Reporting Entity

MET was created under Act 316, P.A. 1986 (Sections 390.1421 - 390.1444 of the *Michigan Compiled Laws*), to operate a prepaid college tuition program. MET is governed by a 9-member Board of Directors that consists of 1 ex-officio member (the State Treasurer, acting as chair) and 8 public members who are appointed by the Governor with the advice and consent of the Senate. MET is administratively located within the Department of Treasury. The State Treasurer, as MET's agent, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan and is reported as such in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plans B and C. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Michigan or its component units, MET as a whole, or MET Plan D in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

Act 316, P.A. 1986, as amended, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased.

MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants based on a proration of the remaining assets. In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the Small Business Job Protection Act of 1996 (known as the 1996 Tax Act). On December 23, 1997, the IRS issued a favorable ruling, which confirms that MET meets the requirements for exemption from federal income tax as a state qualified tuition program described in Section 529 of the Internal Revenue Code.

As of September 30, 2015, there have been 23 enrollment periods over 27 years for MET. The 1988, 1989, and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, 2006, 2007 (two enrollment periods), 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. These financial statements report only Plans B and C enrollments. Separate financial statements and actuarial valuation of the Plan D enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

Note 2 Summary of Significant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by accounting principles generally accepted in the United States of America as applicable to governmental units. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.
MET follows the accounting rules promulgated by the Governmental Accounting Standards Board (GASB).

b. Assets, Liabilities, and Net Position

(1) Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net position include deposits with financial institutions and short-term investments with original maturities of less than three months used for cash management rather than investing activities.

(2) Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Act 316, P.A. 1986, as amended, authorizes the MET Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes. Investments are carried at fair value (see Note 3).

(3) Liabilities: The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 4).

(4) Net Position: MET's net position represents the investment appreciation and the investment revenue in excess of the actuarial present value of the future tuition benefits obligation and expenses (see Note 4). Net position is restricted because of the contractual obligations that MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. Section 17 of Act 316, P.A. 1986, as amended indicates that the assets of MET shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the Act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of the Act.

Note 3 Deposits and Investments

a. General Information

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, policies and practices with respect to custodial credit risk, foreign currency risk, interest rate risk, credit risk, and concentration of credit risk are discussed in the following paragraphs.

b. Deposits

(1) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MET will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. MET does not have a policy for custodial credit risk for deposits.

At the end of fiscal year 2014-15, the carrying amount of MET's deposits for Plans B and C and the amount reflected in the accounts of the banks was $8,553,837. At the end of fiscal year 2013-14, the carrying amount of MET's deposits for Plans B and C and the amount reflected in the accounts of the banks was $9,306,931. The September 30, 2015 and September 30, 2014 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, therefore, were not exposed to custodial credit risk.

(2) Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of a deposit. As of September 30, 2015 and September 30, 2014, MET had no foreign deposits.

c. Investments

(1) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MET does not have a policy to restrict interest rate risk for long-term investments.

As of September 30, 2015, the fair value of investments for Plans B and C by investment type and in total (in millions) were as follows:

			Investment Maturities							
	Fair Value		Less Than 1 Year		1 to 5 Years		6 to 10 Years		More Than 10 Years	
Investments:										
Commercial paper	$	30.0	$	30.0	$		$		$	
US agencies – backed		5.3						5.3		
Corporate bonds and notes		83.8		17.6		38.4		27.7		
Total investments	$	119.1	$	47.6	$	38.4	$	33.0	$	0.0
Less investments reported as "cash equivalents" on statement of net position		(30.0)								
Total investments	$	89.1								

As Reported on the Statement of Net Position

Noncurrent restricted investments	$	89.1
Total investments	$	89.1

As of September 30, 2014, the fair value of investments for Plans B and C by investment type and in total (in millions) were as follows:

	Fair Value	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	$ 25.0	$ 25.0	$	$	$
Corporate bonds and notes	102.2	17.1	54.8	30.3	
Total investments	$ 127.2	$ 42.1	$ 54.8	$ 30.3	$ 0.0
Less investments reported as "cash equivalents" on statement of net position	(25.0)				
Total investments	$ 102.2				

As Reported on the Statement of Net Position

Noncurrent restricted investments	$ 102.2
Total investments	$ 102.2

(2) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two national rating services: ratings of A-1 and A-2 from Standard & Poor's and ratings of P-1 and P-2 from Moody's Investors Service. MET's policy also limits investments in corporate bonds and mutual bond funds, at the time of purchase, to the top four ratings of the two rating services: ratings of AAA, AA, A, and BBB from Standard & Poor's and ratings of Aaa, Aa, A, and Baa from Moody's Investors Service.

As of September 30, 2015, the fair value and credit quality ratings of investments were as follows:

Investment	Fair Value	Credit Quality Rating: Standard & Poor's	Credit Quality Rating: Moody's Investors Service
United States Treasury Notes	$ 5,331,879	Backed*	Backed*
AMGEN Inc.	3,038,139	A	Baa1
Apple Inc.	4,001,876	AA+	Aa1
Bank Of Montreal	2,999,985	A+	Aa3
Bank Of New York Mellon Corp.	2,745,185	A+	A1
Berkshire Hathaway Finance Corp.	2,076,718	AA	Aa2
Berkshire Hathaway Inc.	3,039,891	AA	Aa2
Burlington Northern Santa Fe LLC	2,578,365	BBB+	A3
Costco Wholesale Corp.	2,000,212	A+	A1
Dow Chemical Company	2,864,787	BBB	Baa2
Entergy Louisiana LLC	3,699,129	A-	WR
Estee Lauder Companies Inc.	3,204,066	A+	A2
General Electric Capital Corp.	2,008,808	AA+	A1
General Mills Inc.	3,057,867	BBB+	A3
John Deere Capital Corp.	3,999,212	A	A2
JPMorgan Chase & Co.	2,527,490	A	A3
Kayne Anderson Capital Advisors, L.P.	4,997,700	N/A	Aaa
Manufacturers & Traders Trust Co.	2,999,211	A	A2
Medtronic Inc.	1,996,998	A	A3
Norfolk Southern Corp.	3,986,788	BBB+	Baa1
Oracle Corp.	1,668,062	AA-	A1
Pfizer Inc.	4,078,708	AA	A1
Target Corp.	2,673,370	A	A2
Teva Pharmaceutical Finance, LLC	1,367,400	BBB+	Baa1
Texas Instruments Inc.	4,979,370	A+	A1
Verizon Communications Inc.	2,056,364	BBB+	Baa1
Wells Fargo & Company	4,083,912	A+	A2
Wisconsin Electric Power Co.	5,019,435	A-	A1
Total fair value	$ 89,080,926		

* Backed by the full faith and credit of the United States government

As of September 30, 2014, the fair value and credit quality ratings of investments were as follows:

Investment	Fair Value	Credit Quality Rating: Standard & Poor's	Credit Quality Rating: Moody's Investors Service
Air Products & Chemicals Inc.	$ 2,980,575	A	A2
AMGEN Inc.	3,053,436	A	Baa1
Apple Inc.	4,005,800	AA+	Aa1
AT&T Inc.	2,033,922	A-	A3
Avon Products, Inc.	2,441,733	BBB-	Baa3
Bank of Montreal	3,026,109	A+	Aa3
Bank of New York Mellon Corp.	2,760,469	A+	A1
Berkshire Hathaway Finance Corp.	2,032,968	AA	Aa2
Berkshire Hathaway Inc.	3,086,232	AA	Aa2
Burlington Northern Santa Fe LLC	2,578,270	BBB+	A3
Costco Wholesale Corp.	1,953,308	A+	A1
Entergy Louisiana, LLC	3,738,018	A-	A2
Estee Lauder Companies Inc.	3,320,310	A+	A2
General Electric Capital Corp.	2,019,460	AA+	A1
General Mills Inc.	3,045,417	BBB+	A3
Georgia Power Co.	5,008,380	A	A3
John Deere Capital Corp.	3,952,672	A	A2
JPMorgan Chase & Co.	2,589,078	A	A3
Kayne Anderson Capital Advisors, L.P.	5,009,255	Not Rated	Not Rated
Manufacturers & Traders Trust Co.	3,002,319	A	A2
Medtronic Inc.	1,969,472	AA-	A2
Norfolk Southern Corp.	3,981,964	BBB+	Baa1
Oracle Corp.	1,683,295	A+	A1
PACCAR Financial Corp.	4,015,312	A+	A1
Pfizer Inc.	3,994,108	AA	A1
Procter & Gamble Company	3,035,223	AA-	Aa3
Target Corp.	2,762,737	A	A2
Texas Instruments Inc.	4,862,800	A+	A1
Toyota Motor Credit Corp.	3,013,062	AA-	Aa3
Verizon Communications Inc.	2,106,840	BBB+	Baa1
Wells Fargo & Company	4,181,900	A+	A2
Wisconsin Electric Power Co.	4,974,685	A-	A1
Total fair value	$102,219,129		

(3) Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MET will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. MET's investments are registered in its name and, therefore, are not subject to custodial credit risk. MET does not have an investment policy for custodial credit risk.

(4) Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of MET's investments with a single issuer. MET does not have a policy to limit the concentration of credit risk. As of September 30, 2015, MET the following investments that represented 5% or more of total investments:

		Credit Quality Rating	
Investment	Fair Value	Standard & Poor's	Moody's Investors Service
Texas Instruments Inc.	4,979,370	A+	A1
Wisconsin Electric Power Co.	5,019,435	A-	A1
Kayne Anderson Capital Advisors, L.P.	4,997,700	N/A	Aaa

As of September 30, 2014, MET did not have any investments subject to concentration of credit risk.

(5) Foreign Currency Risk
Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments. As of September 30, 2015 and September 30, 2014, MET had no investments subject to foreign currency risk.

Note 4 Tuition Benefits Payable

The standardized measurement of the total benefits obligation of MET is the actuarial present value of the future tuition benefits obligation that will be paid in future years. The tuition benefits obligation is actuarially calculated by projecting the weighted average tuition cost, including mandatory fees, at the assumed annual rate of increase and then calculating the expected present value of the future distributions from MET based on the investment income and discount rate assumptions.

The following table shows the net value of total assets and deferred outflows of resources less compensated absences, net pension liability and deferred inflows of resources, the present value of total tuition benefits obligation, and the net assets of MET Plans B and C (in millions) as of September 30:

	2015	2014
Net value of total assets and deferred outflows of resources less compensated absences, net pension liability and deferred inflows of resources	$132.6	$142.0
Present value of total tuition benefits obligation	103.3	116.4
Net value of assets in excess of tuition benefits obligation	$ 29.3	$ 25.5
Net value of assets as a percentage of total tuition benefits obligation	128.4%	122.0%

The most important assumptions used in the actuarial valuations include the following:

(1) The investment yield that is applied to expected future cash flows to determine present value was 1.49% as of September 30, 2015 and 1.15% as of September 30, 2014. This investment yield approximates the expected investment earnings over the lifetime of the present tuition benefit contracts. It is premised that expected benefit payments will be diversified in duration to allow MET to invest at the assumed investment yield of 1.49% and to also be able to liquidate its investments in order to meet future benefit payments while still earning the investment yield of 1.49%.

(2) For fiscal year 2014-15, the MET Board of Directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 7.10% for year 1 through year 3 and 4.50% for year 4 and beyond. For fiscal year 2013-14, the projected tuition increase was 7.10% for year 1 through 4 and 4.50% for year 5 and beyond.

(3) There was no tax effect from federal income tax.

(4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

The key assumptions used in the actuarial valuations for Plans B and C were:

	Fiscal Years				
	2014-15	2013-14	2012-13	2011-12	2010-11
Tuition increase:					
Years 1 through 3	7.10%	7.10%			
Years 1 through 4			7.10%		
Years 1 through 5				7.10%	7.10%
Year 4 and beyond	4.50%	4.50%			
Year 5 and beyond			4.50%		
Year 6 and beyond				4.50%	7.10%
Present value discount rate	1.49%	1.15%	0.90%	1.31%	1.38%

The following summarizes the tuition benefits payable (in millions) as of and for the fiscal years ended September 30, 2015 and September 30, 2014:

Balance as of September 30, 2013	$138.1
Provision for net increase (decrease) in present value of tuition benefits payable	(7.4)
Payments	(14.2)
Balance as of September 30, 2014	$116.4
Provision for net increase (decrease) in present value of tuition benefits payable	(2.4)
Payments	(10.7)
Balance as of September 30, 2015	$103.3

The amounts due within one year for tuition benefits payable for the fiscal years ended September 30, 2015 and September 30, 2014 are $24.5 million and $27.5 million, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefits liability. Actual results may differ from the assumptions utilized.

Note 5 Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Technology, Management, and Budget.

Note 6 General Information on Employee Pension Plans

a. Defined Pension Plan:
Plan Description – The Michigan State Employees' Retirement System (the "System" or "SERS") is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members – four appointed by the Governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees. The Office of Retirement Services (ORS) within the Department of Technology, Management, and Budget provides administrative oversight to the System.

The Michigan State Employee' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. 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:

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

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

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

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

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

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

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

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

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

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

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

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

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

A member may retire and receive a monthly benefit after attaining:
(1) age 60 with 10 or more years of credited service; or
(2) age 55 with 30 or more years of credited service; or
(3) age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:
(1) age 51 with 25 or more years in a covered position; or
(2) age 56 with 10 or more years in a covered position.

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

<u>Deferred Retirement</u> - 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.

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

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

under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

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

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

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

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

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

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

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

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

c. Contributions

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

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2015, the component unit's contribution rate was 27.5% of the defined benefit employee wages and 24.2% of the defined contribution employee wages. The Michigan Education Trust's contribution to SERS for the fiscal year ending September 30, 2015 was $69,578.

d. Actuarial Assumptions

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

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

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

Significant actuarial assumptions were based on the April 2014 experience study covering the period October 1, 2007 to September 30, 2012. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Allocation

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

* Rate of return does not include 2.5% inflation

e. Discount Rate

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

f. Net Pension Liability

At September 30, 2015, the Michigan Education Trust reported a liability of $254,013 for its proportionate share of SERS' net pension liability.

The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The Michigan Education Trust's proportion of the net pension liability was based on the Michigan Education Trust's required pension contributions received by SERS during the measurement period October 1, 2013, through September 30, 2014, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2014, the Michigan Education Trust's proportion was 0.035 percent.

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

g. Pension Liability Sensitivity

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

	1 % Decrease	**Current Discount**	**1 % Increase**
	7.0 %	**8.0 %**	**9.0 %**
Proportionate share of the net pension liability	$329,596	$254,013	$187,672

h. Pension Plan Fiduciary Net Position

The SERS plan fiduciary net position has been determined using SERS's accrual basis of accounting. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the System. Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting (www.michigan.gov/ors).

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

For the year ended September 30, 2015, the Michigan Education Trust's recognized pension expense of $28,626. At September 30, 2015, MET reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Changes of assumptions	$7,336	$0
Net difference between projected and actual earnings on investments	$0	$29,711
Changes in proportion and differences between actual contributions and proportionate share of contributions	$0	$0
Contributions subsequent to the measurement date	$69,578	$0
Total	$76,914	$29,711

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

Year ended September 30:	Pension Expense Amount
2016	$(92)
2017	$(7,428)
2018	$(7,428)
2019	$(7,428)

Note 7 Change in Accounting

During the current year, the Michigan Education Trust adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result, the financial statements now include a net pension liability for the Michigan Education Trust's unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years.

As a result of implementing this statement, the net position of the Michigan Education Trust as of October 1, 2014 has been restated from $25,537,144 to $25,289,646. Fiscal year 2014 amounts were not restated since certain necessary information was not available.

Note 8 Defined Contribution Pension Plan

MET participates in the State of Michigan's 401K defined contribution pension plan that covers State of Michigan employees hired after March 31, 1997. The Office of Retirement Services within the Department of Technology, Management and Budget administers the 401K plan. The financial report for the 401K Plan may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111. MET was required to contribute 4.0% of member payroll with an additional match of up to 3.0% of employee contributions. Employees in the 401K plan are not required to contribute to the plan but may contribute up to the IRS allowed maximum. Employees vest in employer contributions at 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service. Forfeited employer contributions are retained within the 401K plan and used towards future employer required contributions. The contribution requirements of the 401K plan are established and may be amended by the State Legislature. The amount of pension expense recognized in fiscal year 2015 related to 401K plan employees was $27,220. MET had no forfeitures reflected in pension expense during fiscal year 2015.

Note 9 Other Postemployment Benefits

MET participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits such as health, dental, vision, and life insurance coverage based on vesting and other requirements. MET was required to contribute 46.95% of payroll for the employer cost of other postemployment benefits in fiscal year 2015 and 46.97% of payroll for the employer cost of other postemployment benefits in fiscal year 2014. The State pays 80% of the cost of health insurance for retired employees who 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 dependent upon years of service. Employees hired on or after January 1, 2012 will not be eligible for retiree health insurance coverage but receive a personal health care fund where they will contribute up to 2% of their compensation in 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.

Required Supplementary Information

Schedules of Required Supplementary Information

Schedule of the Michigan Education Trust's Proportionate Share of Net Pension Liability
State Employees' Retirement System

	2015
Proportion of the Net Pension Liability	0.00049%
Proportionate Share of the Net Pension Liability	$254,013
Covered-Employee Payroll	$214,791
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	118.26%
Plan fiduciary net position as a percentage of the total pension liability	68.07%

The amounts presented were determined as of the prior fiscal year as of the measurement date of September 30, 2014.

Schedule of Michigan Education Trust's Contributions
State Employees' Retirement Plan
Last 10 Fiscal Years

	2015
Statutorily Required Contribution	$69,578
Contributions in relation to the statutorily required contribution	$69,578
Contribution deficiency (excess)	-
Covered-employee payroll	$214,791
Contributions as a percentage of covered-employee payroll	32.39%

Notes to Required Supplementary Information

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

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

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

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

Valuation:

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

Methods and Assumptions Used to Determine Contributions for Fiscal Year 2015

Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	5-Year Smoothed Market
Inflation	2.5%
Salary Increases	3.5% wage inflation
Investment Rate of Return	8.00% net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (set forward 2 years for men, with 81% of the male rates used at ages 80-103 and 107% of the female rates)

OAG
Office of the Auditor General
Doug A. Ringler, CPA, CIA
Auditor General
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Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

Mr. Nick A. Khouri, State Treasurer and Chair
Michigan Education Trust Board of Directors
and
Ms. Robin R. Lott, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Khouri and Ms. Lott:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Michigan Education Trust Plans B and C, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2015 and September 30, 2014 and the related notes to the basic financial statements and have issued our report thereon dated December 21, 2015.

Internal Control Over Financial Reporting

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

Doug A. Ringler, CPA, CIA
Auditor General

Mr. Nick A. Khouri, State Treasurer and Chair
Ms. Robin R. Lott, Executive Director

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

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Doug Ringler

Doug Ringler
Auditor General
December 21, 2015

Glossary of Abbreviations and Terms

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.
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.
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.
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.
IRS	Internal Revenue Service.
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 financial statements will not be prevented, or detected and corrected, on a timely basis.

MET — Michigan Education Trust.

segregation of duties — Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Proper segregation of duties requires separating the duties of reporting, review and approval of reconciliations, and approval and control of documents.

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.

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.

Michigan Department of Treasury
4502 (Rev. 10-15)

Contract Number(s)

Reset Form

Michigan Education Trust Request to Add/Change Appointee

Issued under Public Act 316 of 1986. Filing is mandatory.

PURCHASER INFORMATION

Name	Social Security Number
Street Address	Daytime Telephone
City, State, ZIP Code	E-mail Address

NEW APPOINTEE

Name	Social Security Number
Street Address	Telephone Number
City, State, ZIP Code	E-mail Address

As purchaser of the above Michigan Education Trust (MET) contract, I request that MET add/change the person named as Appointee to the person listed above.

Signature of Purchaser	Date

Do you wish the Appointee to become the Purchaser in the event of the Contract Purchaser's Death? ☐ Yes ☐ No

Do you wish the Appointee to become the Correspondence Designee? ☐ Yes ☐ No

MAIL TO:
Michigan Education Trust
P.O. Box 30198
Lansing, Michigan 48909

Fax: 517-373-6967

Fold here

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Michigan Department of Treasury
Michigan Education Trust
P.O. Box 30198
Lansing MI 48909

Fold here

Michigan Department of Treasury
2775 (Rev. 7-10)

Contract Number(s)

Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document; therefore, any changes to the contract must be made in writing to the MET office and mailed (or faxed) to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. If change of address applies to more than one Beneficiary (student), please copy this form and submit a separate form for each Beneficiary (student).

This change of address applies to (check all that apply):

☐ Purchaser ☐ Beneficiary (student) ☐ Appointee

Name	E-mail Address
New Address	Daytime Telephone ( )
City, State, ZIP Code	

The Purchaser's signature is required to change Purchaser address. Purchaser may also sign to change address for an Appointee and a Beneficiary under 18 years of age.

Purchaser Signature	Date

The Beneficiary must be 18 years of age and can only change his/her address.

Beneficiary Signature	Date

The Appointee's signature is required to change Appointee's address. Appointee may also sign to change address for the Purchaser and a Beneficiary under 18 years of age.

Appointee Signature	Date

MAIL TO:
Michigan Education Trust
P.O. Box 30198
Lansing, Michigan 48909

Fax:
(517) 373-6967

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Michigan Department of Treasury
Michigan Education Trust
P.O. Box 30198
Lansing MI 48909

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THE MET STAFF

Robin R. Lott
Executive Director

Joseph Asghodom
Finance Manager

Jo Cooper
Departmental Manager

Jim Peterson
Marketing Manager

Jennifer Wallace
Outreach Manager

Diane Brewer
Policy Analyst

Susan Bailey
Analyst

Jchon Patton
Analyst

Ratsamy Hakvonsga
Accountant

Megan Buonodono
Analyst

Donald Fews
Departmental Technician

Tim Dame
Departmental Analyst

Matt Wolcott
Departmental Analyst

Linda Giles-Gordon
Executive Secretary

Since 1988, 96% of high school graduates with a MET contract have gone on to attend a college or university.

Michigan Department of Treasury

2268 (Rev. 01-16)