SAVING FOR COLLEGE IS SIMPLE

MET
MICHIGAN EDUCATION TRUST

2011-2012 ANNUAL REPORT | CONTRACT PLAN D

This report is available at **www.SETwithMET.com**.
To have a copy mailed to you, call
1-800-MET-4-KID.

187 (Rev. 01-11)

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 2013

Dear MET Participants:

We are pleased to present the Fiscal Year 2011-12 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 after 1995 (referred to in this Annual Report as Plan D contracts) as of September 30, 2012, 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 2013 enrollment period is currently open and ends September 30, 2013. 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 us at **TreasMET@michigan.gov**.

Sincerely,

Andy Dillon
MET Chairman
State Treasurer

Robin R. Lott
Executive Director
Michigan Education Trust

P.O. BOX 30198 • LANSING, MICHIGAN 48909
www.setwithmet.com • (517) 335-4767 or (800) MET-4-KID

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, Andy Dillon, 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 Bureau of State and Authority Finance.

MICHIGAN EDUCATION TRUST
BOARD OF DIRECTORS

MR. ANDY DILLON
State Treasurer
MET Chair

MR. ROBERT A. BOWMAN
MET President
President & CEO, MLB Advanced Media, L.P.

DR. THOMAS P. SULLIVAN
MET Vice President
President, Cleary College

DR. SUSAN W. MARTIN
President, Eastern Michigan University

DR. GAIL MEE
President, Henry Ford Community College

DR. MARLENE E. DAVIS
CEO Leadership Strategies L.L.C.

MR. GREGORY CLEVENGER
Teacher, Rochester Adams High School

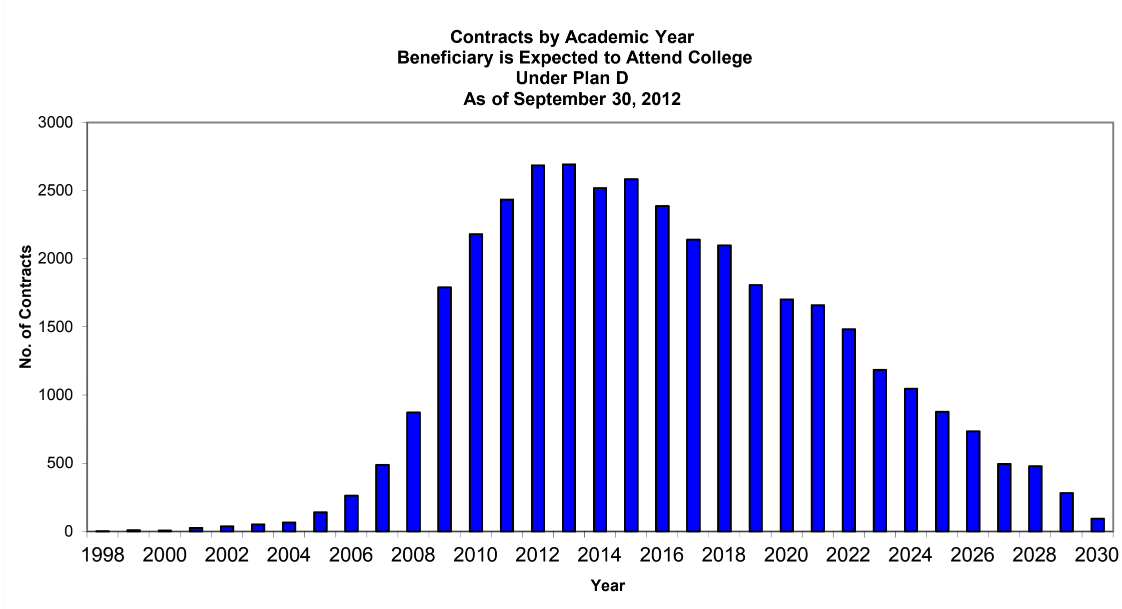
MR. ELIYA (LOUIE) BOJI
Founder & Managing Member, Boji Group

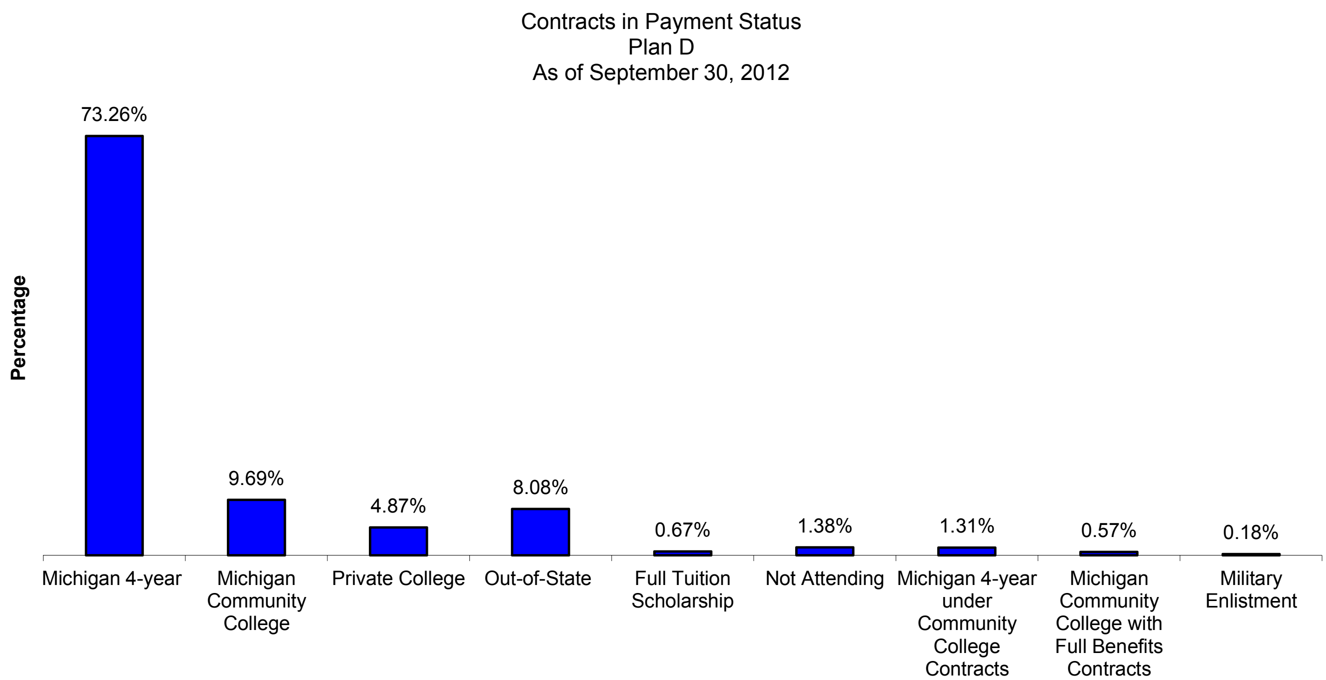
MR. DONAT LECLAIR

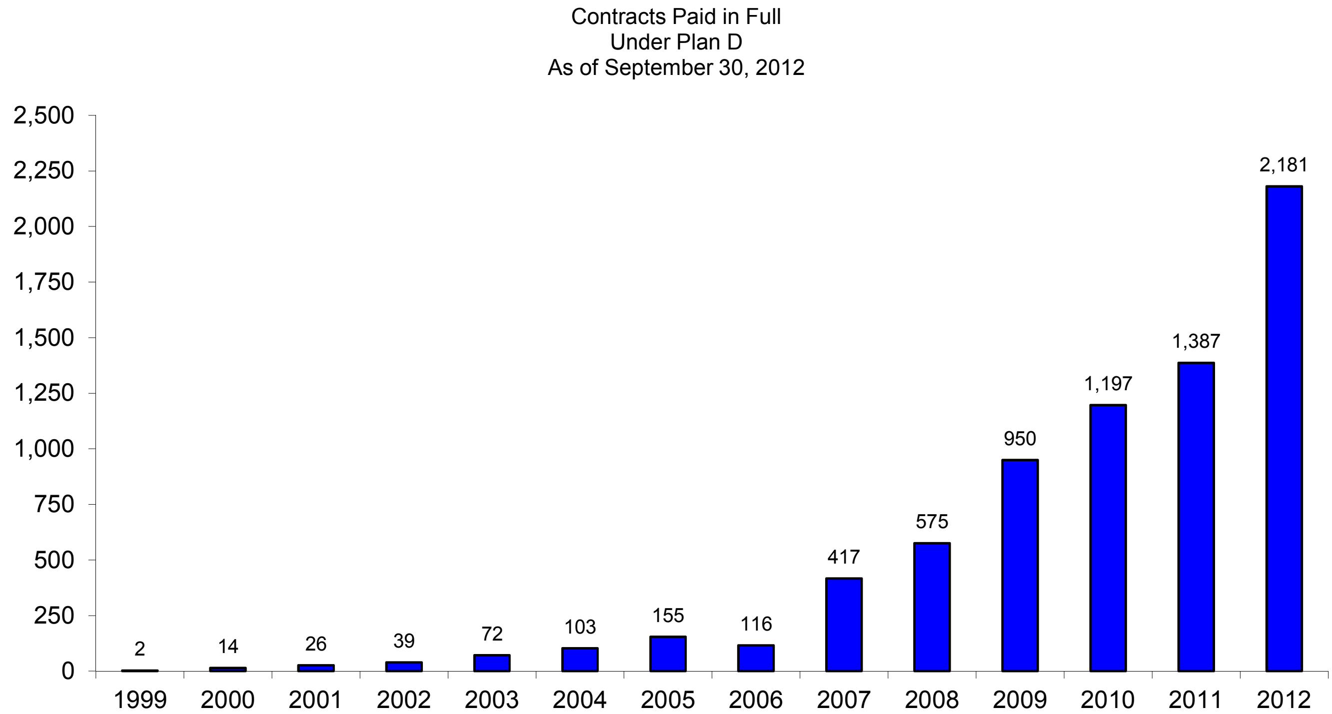
THE MET PROGRAM

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 Plan D
As of September 30, 2012
No. of Contracts
Year
3000
2500
2000
1500
1000
500
0
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
2028
2030


Contracts in Payment Status
Plan D
As of September 30, 2012
Percentage
73.26%
9.69%
4.87%
8.08%
0.67%
1.38%
1.31%
0.57%
0.18%
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



TESTIMONIALS

"The MET simply put is wonderful! We purchased two contracts for our boys. One contract was purchased in 1989 and one in 1998. The cost for both contracts combined was $33,000.00. The payback for our investment is well over $80,000.00. The funding from the MET to the universities was hassle free. As tuition has been increasing year after year, my wife and I were able to sleep knowing the tuition for our boys would be covered. The MET was well worth the investment."

James Byrnes, Educator

"This is the single best investment we ever made! Knowing our children have their college education gives us peace beyond words."

Teri Chouinard, Purchaser

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

February 13, 2013

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 – Plan D ("MET") as of September 30, 2012. The purpose of this actuarial valuation is to evaluate the financial viability of the program as of September 30, 2012.

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, 2012. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data.

As of September 30, 2012, the present value of all future tuition obligations under contracts outstanding (and including estimated future administrative expenses) at that date is $896.0 million. Fund assets as of September 30, 2012, including the market value of program assets and the present value of installment contract receivables, are $776.2 million. The difference between the market value of assets of $776.2 million and program obligations of $896.0 million represents a program deficit of $119.8 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 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 – Plan D as of September 30, 2012.

Respectfully submitted,

Gabriel, Roeder, Smith and Company

Alex Rivera

Alex Rivera, FSA, MAAA, EA, FCA
Senior Consultant

Lance J. Weiss

Lance Weiss, EA, MAAA, FCA
Senior Consultant

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mr. Andy Dillon, 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. Dillon and Ms. Lott:

We have audited the statement of net assets (deficit); the statement of revenues, expenses, and changes in net assets (deficit); and the statement of cash flows of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2012 and September 30, 2011. These financial statements are the responsibility of the Michigan Education Trust's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Education Trust Plan D and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units, or the Michigan Education Trust Plans B and C, as of September 30, 2012 and September 30, 2011 and the changes in its financial position or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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 Plan D as of September 30, 2012 and September 30, 2011 and the changes in its financial position and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012 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 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* and should be considered in assessing the results of our audit.

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

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 17, 2012

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plan D for the fiscal years ended September 30, 2012 and September 30, 2011. 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.

The reporting standards in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, require a statement of net assets (deficit); a statement of revenues, expenses, and changes in net assets (deficit); and a statement of cash flows. These financial statements are interrelated and represent the financial status of MET Plan D.

The statement of net assets (deficit) includes the assets, liabilities, and net assets (deficit) at the end of the fiscal year. The statement of revenues, expenses, and changes in net assets (deficit) 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 Plan D

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 Plan D may be invested up to 75% in equities with the remainder invested in short-term investments, U.S. government securities, and corporate bonds.

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 approved an amendment allowing students 15 years from the expected year of high school graduation to completely use MET contract benefits. Before 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.

MET Plan D received 2,879 new contracts and $56.4 million in prepaid tuition amounts related to new contracts during fiscal year 2011-12. In fiscal year 2010-11, MET received 2,814 new contracts and $52.2 million in prepaid tuition amounts related to new contracts.

Comparison of Current Year and Prior Year Results

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

	2012	2011	2010
Current assets	$ 81,068	$ 79,368	$ 82,624
Noncurrent assets	698,345	571,949	555,042
Total assets	$ 779,413	$ 651,316	$ 637,666
Current liabilities	$ 92,216	$ 58,998	$ 48,705
Noncurrent liabilities	807,031	808,035	716,574
Total liabilities	$ 899,247	$ 867,033	$ 765,279
Net assets (deficit) - Unrestricted	$ (119,834)	$ (215,716)	$ (127,613)
Total net assets (deficit)	$ (119,834)	$ (215,716)	$ (127,613)

Total net assets increased by $95.9 million in fiscal year 2011-12 and decreased by $88.1 million in fiscal year 2010-11. The net assets increased during fiscal year 2011-12 due to increases in the fair value of investments at year-end and tuition increases lower than expected. The net assets decreased during fiscal year 2010-11 due to decreases in the fair value of investments at year-end, tuition increases that were higher than expected, and a change in the discount rate and tuition increase assumption.

Current assets increased by $1.7 million in fiscal year 2011-12 and decreased by $3.3 million in fiscal year 2010-11. The increase in fiscal year 2011-12 resulted primarily from the increases in amounts due from contract purchasers. The decrease in fiscal year 2010-11 was caused by the decrease in cash and cash equivalents and the increases in long-term investment portfolios.

Total assets increased by $128.1 million in fiscal year 2011-12 and increased by $13.7 million in fiscal year 2010-11. These increases resulted from the sale of new contracts.

Total liabilities increased by $32.2 million in fiscal year 2011-12 and increased by $101.8 million in fiscal year 2010-11. These changes were a result of the changes in the actuarial assumptions and additional contracts sold. During fiscal year 2011-12, the MET Board of Directors decreased the investment yield from 7.01% to 6.00%, which resulted in an increase to the tuition benefits payable. Actual yield was 18.8% for fiscal year 2011-12. During fiscal year 2010-11, the MET Board of Directors decreased the investment yield from 7.40% to 7.01%, which resulted in an increase to the tuition benefits payable. Actual yield was 0.2% for fiscal year 2010-11. The assumption changes were based on a less than expected recovery in the investment yields in fiscal year 2010-11.

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

	2012	2011	2010
Operating revenues			
Interest and dividends income	$ 15,037	$ 12,581	$ 11,085
Net increase (decrease) in the fair value of investments	96,004	(12,963)	33,440
Other miscellaneous income	110	63	46
Total operating revenues	$ 111,151	$ (320)	$ 44,572
Operating expenses			
Salaries and other administrative expenses	$ 3,163	$ 2,948	$ 2,731
Net increase (decrease) in the present value of tuition benefits payable	12,105	84,835	116,786
Total operating expenses	$ 15,268	$ 87,783	$ 119,517
Operating income (loss)	$ 95,883	$ (88,103)	$ (74,945)
Increase (Decrease) in net assets	$ 95,883	$ (88,103)	$ (74,945)
Net assets (deficit) - Beginning of fiscal year	(215,716)	(127,613)	(52,668)
Net assets (deficit) - End of fiscal year	$ (119,834)	$ (215,716)	$ (127,613)

The **net increase (decrease) in the fair value of investments** increased $109.0 million in fiscal year 2011-12 due to the favorable investment performance and decreased by $46.4 million in fiscal year 2010-11 primarily because of the changes in the fair value of investments in equities.

The **net increase (decrease) in the present value of tuition benefits payable** decreased $72.7 million in fiscal year 2011-12 and decreased $32.0 million in fiscal year 2010-11. These changes were a direct result of the changes in the actuarial assumptions. During fiscal year 2011-12, the MET Board of Directors decreased the investment yield from 7.01% to 6.00%.

The **deficit in net assets - end of fiscal year** decreased by $95.9 million in fiscal year 2011-12 and increased by $88.1 million in fiscal year 2010-11. The decrease was primarily due to favorable investment performance and to lower increases in tuition and fees than assumed. The increase in fiscal year 2010-11 resulted from unfavorable investment performance and higher increases in tuition and fees.

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

	2012	2011	2010
Net cash provided (used) by:			
Operating activities	$ 25,285	$ 26,533	$ 13,547
Investing activities	(24,850)	(28,577)	(19,634)
Net cash provided (used) - All activities	$ 435	$ (2,044)	$ (6,087)
Cash and cash equivalents - Beginning of fiscal year	62,096	64,141	70,228
Cash and cash equivalents - End of fiscal year	$ 62,532	$ 62,096	$ 64,141

The **net cash provided by operating activities** decreased by $1.2 million in fiscal year 2011-12 and increased by $13.0 million in fiscal year 2010-11. The decrease during fiscal year 2011-12 was attributed to increased contract payments, and the increase during fiscal year 2010-11 was attributed primarily to an increase in contract enrollment.

The **net cash used by investing activities** decreased by $3.7 million in fiscal year 2011-12 because of the decreased amount of cash available for investment purposes and increased by $8.9 million in fiscal year 2010-11 because of the increased amount of cash available for investment purposes.

More prepaid contracts were sold during open enrollment for fiscal year 2011-12 compared to fiscal year 2010-11. This improvement in new enrollments resulted in an 8.0% increase in prepaid tuition amounts received compared to amounts received in fiscal year 2010-11.

Factors Impacting Future Periods

Prepaid tuition receipts translate into an increase in the tuition liability; however, the actuarial soundness of MET is based in part on new contracts being purchased, market performance of investments, and factors affecting estimates of future tuition benefits. As stated in the actuary's report, MET Plan D is 86.6% funded and is expected to pay benefits through 2024 even if no new contracts are issued. The MET Plan D actuary's cash flow report expects tuition payments to students activating their contracts to be:

Fiscal Years Ending	Expected Tuition Payments	Expected Number of Contracts
2013 - 2015	$295,441,447	7,794
2016 - 2018	$270,324,446	6,446
2019 - 2021	$256,228,300	5,127
2022 - 2024	$222,926,072	3,585
After 2024	$309,662,024	2,953

The enrollment period for 2009 was from September 3, 2008 through August 31, 2009. The enrollment period for 2010 was from November 2, 2009 through June 30, 2010. The enrollment period for 2011 was from November 1, 2010 through June 30, 2011. The enrollment period for 2012 was from December 15, 2011 through August 31, 2012. New enrollment contract prices are adjusted annually to reflect changes in tuition costs and investment earnings and will increase cash, future tuition benefits payable, and the asset base of MET Plan D.

The MET Board of Directors reviews asset allocation and investment performance on a quarterly basis to balance investment risk and maximize rates of return. At the beginning of fiscal year 2007-08, the MET Board changed the long-term investment portfolio strategy to address the unfunded liability issue. The new MET Plan D target portfolio for investment is now 25% in fixed income securities (short-term investments, U.S. government securities, and corporate bonds) and 75% in equities (mutual funds).

It is expected that Michigan public universities will continue to adopt higher tuition rates in subsequent years as the State appropriated funds remain flat. The average yearly tuition increase over the last 20 years has been 7.10% for four-year universities and 4.50% for two-year community colleges, compared to the actuarial assumption of 7.10% for year 1 through year 5 and 4.50% for year 6 and beyond.

MICHIGAN EDUCATION TRUST PLAN D
Statement of Net Assets (Deficit)
As of September 30

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	$ 62,531,556	$ 62,096,379
Tuition contracts receivable (Note 4)	15,552,932	15,715,049
Interest and dividends receivable	1,745,352	1,515,929
Amounts due from contract purchaser	1,238,014	9,075
Amounts due from others		31,222
Total current assets	$ 81,067,854	$ 79,367,654
Noncurrent assets:		
Investments (Note 3)	644,435,674	523,582,033
Tuition contracts receivable (Note 4)	53,909,783	48,366,494
Total assets	$ 779,413,311	$ 651,316,181
LIABILITIES		
Current liabilities:		
Amounts due to MET Program (Plans B and C)	$ 3,215,643	$ 2,997,641
Tuition benefits payable (Note 5)	89,000,000	56,000,000
Total current liabilities	$ 92,215,643	$ 58,997,641
Noncurrent liabilities:		
Tuition benefits payable (Note 5)	807,031,466	808,034,973
Total liabilities	$ 899,247,109	$ 867,032,614
NET ASSETS		
Net assets (deficit) - Unrestricted	$ (119,833,798)	$ (215,716,433)
Total net assets (deficit) (Note 2)	$ (119,833,798)	$ (215,716,433)

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

MICHIGAN EDUCATION TRUST PLAN D

Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Fiscal Years Ended September 30

	2012	2011
OPERATING REVENUES		
Interest and dividends income	$ 15,037,031	$ 12,580,856
Net increase (decrease) in the fair value of investments	96,003,702	(12,963,427)
Other miscellaneous income	109,873	62,679
Total operating revenues	$ 111,150,607	$ (319,892)
OPERATING EXPENSES		
Salaries and other administrative expenses	$ 3,162,529	$ 2,948,174
Net increase (decrease) in the present value of tuition benefits payable	12,105,443	84,835,240
Total operating expenses	$ 15,267,972	$ 87,783,414
Operating income (loss)	$ 95,882,635	$ (88,103,306)
Increase (Decrease) in net assets	$ 95,882,635	$ (88,103,306)
Net assets (deficit) - Beginning of fiscal year	(215,716,433)	(127,613,127)
Net assets (deficit) - End of fiscal year (Note 2)	$ (119,833,798)	$ (215,716,433)

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

MICHIGAN EDUCATION TRUST PLAN D

Statement of Cash Flows

Fiscal Years Ended September 30

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract receipts	$ 75,696,140	$ 71,414,819
Interest and dividends received	14,807,608	12,466,642
Benefits paid	(62,415,200)	(54,747,303)
Administrative and other expenses paid	(2,944,527)	(2,664,060)
Amounts due from others	31,222	
Application and other fees collected	109,873	62,681
Net cash provided (used) by operating activities	$ 25,285,116	$ 26,532,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	$ (78,219,850)	$ (49,575,382)
Proceeds from sale and maturities of investment securities	53,369,911	20,998,404
Net cash provided (used) by investing activities	$ (24,849,939)	$ (28,576,978)
Net cash provided (used) - All activities	$ 435,177	$ (2,044,199)
Cash and cash equivalents - Beginning of fiscal year	62,096,379	64,140,578
Cash and cash equivalents - End of fiscal year	$ 62,531,556	$ 62,096,379
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ 95,882,635	$ (88,103,306)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Unrealized and realized (gains) losses	(96,003,702)	12,963,427
Changes in assets and liabilities:		
Interest and dividends receivable	(229,423)	(114,214)
Tuition contracts receivable	(5,381,172)	42,037
Amount due from contract purchaser	(1,228,939)	22,562
Amount due from others	31,222	(31,222)
Amounts due to MET Program (Plans B and C)	218,002	292,776
Tuition benefits payable	31,996,493	101,460,720
Net cash provided (used) by operating activities	$ 25,285,116	$ 26,532,779

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) Plan D 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 Plan D. 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, or MET Plans B and C, in conformity 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 proportion of the remaining assets.

As of September 30, 2012, there have been 20 enrollment periods over 24 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, and 2012 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 Plan D enrollments. Separate financial statements and actuarial valuation of Plans B and C 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.

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

b. Assets, Liabilities, and Net Assets

(1) Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net assets include deposits with financial institutions and short-term investments with original maturities that are generally 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 investments with investments of the State, such as the pension funds, for investment purposes. Investments are carried at fair value (see Note 3).

(3) Tuition Contracts Receivable: The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. In fiscal years 2011-12 and 2010-11, the discount rate applied to expected future cash flows to determine present value was 6.00% and 7.01%, respectively.

(4) Liabilities: The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 5).

(5) Net Assets (Deficit): MET's net assets represent the investment appreciation and the investment revenue in excess of (or less than) the actuarial present value of the future tuition benefits obligation and expenses (see Note 5). Positive net assets are restricted because of the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. Negative net assets are unrestricted. The enabling legislation for MET is Act 316, P.A. 1986, as amended. Section 17 of the Act indicates that the assets of the trust 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 2011-12, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was $16,436,397. At the end of fiscal year 2010-11, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was $14,308,124. The September 30, 2012 and September 30, 2011 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, 2012 and September 30, 2011, 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.

The following table shows the fair value of investments for Plan D by investment type and in total (in millions) at September 30, 2012:

		Investment Maturities			
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	$ 46.1	$ 46.1	$	$	$
U.S. agencies - backed	1.8				1.8
U.S. agencies - sponsored	9.6			6.6	3.0
Corporate bonds and notes	169.6	7.0	67.1	95.4	
* Mutual funds	463.4				
Total investments	$ 690.5	$ 53.1	$ 67.1	$ 102.0	$ 4.8
Less investments reported as "cash equivalents" on statement of net assets	(46.1)				
Total investments	$ 644.4				
As Reported on the Statement of Net Assets					
Noncurrent restricted investments	$ 644.4				
Total investments	$ 644.4				

* Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

The following table shows the fair value of investments for Plan D by investment type and in total (in millions) at September 30, 2011:

	Fair Value	Investment Maturities Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	$ 47.8	$ 47.8	$	$	$
U.S. agencies - backed	4.8				4.8
U.S. agencies - sponsored	4.0	4.0			
Corporate bonds and notes	151.2	34.6	38.1	78.5	
* Mutual funds	363.6				
Total investments	$ 571.4	$ 86.4	$ 38.1	$ 78.5	$ 4.8
Less investments reported as "cash equivalents" on statement of net assets	(47.8)				
Total investments	$ 523.6				
<u>As Reported on the Statement of Net Assets</u>					
Noncurrent restricted investments	$ 523.6				
Total investments	$ 523.6				

* Mutual funds have no fixed income or duration and, therefore, are not segmented for time.

(2) <u>Credit Risk</u>

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, 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, 2012, the fair value and credit quality ratings of investments were as follows:

Investment	Fair Value	Credit Quality Rating Standard & Poor's	Moody's Investors Service
Government National Mortgage Association	$ 1,814,266	Backed*	Backed*
Small Business Administration Participation	3,032,611	Not Rated	Not Rated
Dodge & Cox (mutual fund)	47,603,977	Not Rated	Not Rated
John Hancock Funds, LLC (mutual fund)	46,749,406	Not Rated	Not Rated
The Vanguard Group, Inc. (mutual fund)	369,057,041	Not Rated	Not Rated
American Honda Finance Corp.	3,259,410	A+	A1
Avon Products, Inc.	3,607,742	BBB-	Baa1
BB&T Corporation	4,500,000	BBB+	WR
BellSouth Corp.	5,701,864	A-	WR
Berkshire Hathaway Inc.	2,193,166	AA+	Aa2

Investment *(continued)*	Fair Value	Credit Quality Rating: Standard & Poor's	Credit Quality Rating: Moody's Investors Service
Bottling Group, LLC	5,941,850	A	Aa3
Campbell Soup Company	2,998,128	BBB+	A2
Cargill, Inc.	5,231,225	A	A2
Caterpillar Financial Services Corp.	6,026,640	A	A2
Coca-Cola Enterprises	4,123,628	BBB	A3
Diageo Investment Corp.	4,170,116	A-	A3
Dow Chemical Company	6,018,780	BBB	Baa3
E.I. du pont de Nemours and Company	4,477,374	A	A2
Emerson Electric Company	3,633,984	A	A2
Freddie Mac	5,087,080	AA+	Aaa
Fannie Mae	1,502,067	AA+	Aaa
GATX Corp.	5,158,820	BBB	Baa2
GATX Corp. 2008-2 Pass-Through Trust	2,599,600	BBB+	Baa1
General Electric Company	2,538,204	AA+	Aa3
General Electric Capital Corp.	2,058,028	AA+	A1
Idaho Power Company	2,059,388	A-	A2
IBM Corp.	8,579,571	AA-	Aa3
John Deere Capital Corp.	5,985,750	A	A2
JPMorgan Chase & Co.	5,288,445	A	A2
Lockheed Martin	2,641,258	A-	Baa1
Nordstrom	3,373,845	A-	Baa1
Pfizer Inc.	2,934,500	AA	A1
Pitney Bowes Inc.	3,269,838	BBB+	Baa1
Precision Castparts Corp.	5,277,534	A-	A2
Rio Tinto Finance (USA) Limited	9,388,780	A-	A3
Schlumberger Investment S.A.	2,662,118	A+	A1
Target Corp.	$ 3,935,949	A+	A2
Teva Pharmaceutical Finance, LLC	3,252,042	A-	A3
Textron Financial Corp.	2,100,507	BBB-	Baa3
Thermo Fisher Scientific Inc.	2,140,000	A-	Baa1
Toyota Motor Credit Corporation	7,750,754	AA-	Aa3
United Technologies Corporation	5,185,875	A	A2
Verizon Communications, Inc.	6,096,120	A-	A3
Volkswagen International Finance N.V.	2,207,200	A-	A3
Walgreen Co.	5,868,720	BBB	Baa1
Wells Fargo	5,352,475	A+	A2
Total fair value	$644,435,674		

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

As of September 30, 2011, 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
Government National Mortgage Association	$ 4,799,916	Backed*	Backed*
Dodge & Cox (mutual fund)	36,094,836	Not Rated	Not Rated
John Hancock Funds, LLC (mutual fund)	37,125,122	Not Rated	Not Rated
The Vanguard Group, Inc. (mutual fund)	290,355,918	Not Rated	Not Rated
American Honda Finance Corp.	3,025,239	A+	A1e
Avon Products, Inc.	3,802,366	BBB+	A2
BB&T Corporation	4,637,569	A-	A3
BellSouth Corp.	5,637,082	A-	A2
Bottling Group, LLC	5,839,955	A	Aa3
Burlington Northern Santa Fe Railway	1,233,685	A+	Aa2
Cargill, Inc.	5,392,975	A	A2
Caterpillar Financial Services Corp.	5,877,345	A	A2
Dow Chemical Company	5,563,530	BBB	Baa3
E.I. du pont de Nemours and Company	4,201,379	A	A2
Emerson Electric Company	5,804,405	A	A2
Federal Home Loan Bank	4,000,000	AA+	Aaa
GATX Corp.	4,978,475	BBB	Baa1
GATX Corp. 2008-2 Pass-Through Trust	2,881,998	BBB+	A3
General Electric Capital Corp.	4,666,437	AA+	Aa2
Goldman Sachs Group, Inc.	4,156,777	A	A1
IBM Corp.	8,328,285	A+	Aa3
John Deere Capital Corp.	5,909,150	A	A2
Pfizer Inc.	2,843,703	AA	A1
Pitney Bowes Inc.	3,075,948	BBB+	A2
Precision Castparts Corp.	5,295,375	A-	A3
Rio Tinto Finance (USA) Limited	3,989,307	A-	A3
Seariver Maritime Financial Holdings, Inc.	24,227,853	AAA	Aaa
Target Corp.	3,845,947	A+	A2
Textron Financial Corp.	2,072,332	BB+	Baa3
US Central Federal Credit Union	5,002,165	AA+	Aaa
Verizon Communications, Inc.	5,797,865	A-	A3
Walgreen Co.	5,917,595	A	A2
Wells Fargo	5,206,315	AA-	A2
Wisconsin Electric Power Company	1,995,184	A-	A2
Total fair value	$523,582,033		

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

(3) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of 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 concentration of credit risk.

At September 30, 2012 and September 30, 2011, 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 mutual fund investments or deposits. As of September 30, 2012 and September 30, 2011, MET had $60,658,489 and $52,680,317, respectively, of mutual fund investments subject to foreign currency risk.

Note 4 Tuition Contracts Receivable

The future monthly purchase contract receipts are actuarially calculated based on the present value of future receipts and projected investment performance. The following table summarizes tuition contracts receivable for monthly purchase contracts (in millions) as of September 30:

	2012	2011
Tuition contracts receivable	$69.5	$64.1
Less current value contracts receivable	15.6	15.7
Long-term tuition contracts receivable	$53.9	$48.4

Note 5 Tuition Benefits Payable and Net Assets (Deficit)

The standardized measurement of the total tuition 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 the trust based on the investment income, discount rate assumptions, and outstanding contracts. The following table shows the net value of total assets less nontuition liabilities, the present value of total tuition benefits obligation, and the net assets (deficit) of MET Plan D (in millions) as of September 30:

	2012	2011
Net value of total assets less nontuition liabilities	$ 776.2	$ 648.3
Present value of total tuition benefits obligation	896.0	864.0
Net value of assets in excess of tuition benefits obligation	$ (119.8)	$ (215.7)
Net value of assets as a percentage of total tuition benefits obligation	86.6%	75.0%

The deficit in net assets is a direct result of the future tuition benefits obligation exceeding the value of assets (unfunded tuition benefit liability). Differences between future assumptions related to actual investment returns and actual tuition increases will affect the net assets or unfunded tuition liability.

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 changed to 6.00% as of September 30, 2012 for the first 10 years. This is a decrease from the 7.01% as of September 30, 2011. The investment yield decrease was a result of revised expected returns in equity, bonds, and cash investments. The 7.01% is the long-term earnings rate expected from the assets of MET for the first 10 years. In addition, the 7.01% investment yield is net of any investment expenses charged to MET. The investment yield assumption is based on the earnings of MET's investment portfolio together with estimates of the yields that will be available on reinvestment of income.

(2) For fiscal year 2011-12, 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 5 and 4.50% for year 6 and beyond. For fiscal year 2010-11, the projected tuition increase was 7.10% compounded annually for all future years.

(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.

Presented below are the key assumptions used in the actuarial valuations for Plan D:

	Fiscal Years				
	2011-12	2010-11	2009-10	2008-09	2007-08
Tuition increase (year 1 through year 5)	7.10%	7.10%	6.50%	6.50%	7.30%
Tuition increase (year 6 and beyond)	4.50%	7.10%	6.50%	6.50%	7.30%
Present value discount rate	6.00%	7.01%	7.40%	9.50%	7.50%

The following summarizes the tuition benefits payable (in millions) as of and for the fiscal years ended September 30, 2012 and September 30, 2011:

Balance at October 1, 2010	$ 762.6
Tuition benefit expense provision	156.2
Payments	(54.7)
Balance at September 30, 2011	$ 864.0
Tuition benefit expense provision	94.4
Payments	(62.4)
Balance at September 30, 2012	$ 896.0

The amounts due within one year for tuition benefits payable for the fiscal years ended September 30, 2012 and September 30, 2011 are $89,000,000 and $56,000,000, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

Note 6 Tax Status

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan; thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or the beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions are no longer subject to federal income tax if used for qualified higher education expenses. The federal Pension Protection Act, enacted in August 2006, provides permanent tax exemption for Internal Revenue Code Section 529 qualified tuition programs.

On August 20, 1996, the Small Business Job Protection Act of 1996 (known as the "1996 Tax Act") was signed into law. The 1996 Tax Act included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified tuition programs." A qualified tuition program is generally exempt from income tax but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with 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.

Note 7 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 8 Pension Plans

MET employees are State classified employees who are covered by the State Employees' Retirement System Defined Benefit or Defined Contribution Plans. Detail and data regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports. 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 cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

MET was billed and paid an average 50.9% and 37.4% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2011-12 and 2010-11, respectively. Beginning in fiscal year 2011-12, defined benefit plan members are required to contribute 4.0% of payroll to the pension plan. For the defined contribution plan, MET was required to contribute 4.0% of payroll with an additional match of up to 3.0% for fiscal year 2011-12. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management, and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

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

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