

Michigan Education Savings Program
(a fiduciary fund of the State of Michigan)

Audited Financial Statements

*Year Ended September 30, 2013
with Report of Independent Auditors*

Michigan Education Savings Program

Audited Financial Statements

Year Ended September 30, 2013

Contents

Report of Independent Auditors	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Fiduciary Net Position	6
Statement of Changes in Fiduciary Net Position	7
Notes to Financial Statements.....	8
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18

Report of Independent Auditors

Mr. Kevin Clinton, Trustee, Michigan Education Savings Program, Michigan Department of Treasury
Mr. Thomas H. McTavish, CPA, Auditor General, State of Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Education Savings Program, a fiduciary fund of the State of Michigan, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Michigan Education Savings Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 above present fairly, in all material respects, the fiduciary net position of the Michigan Education Savings Program, a fiduciary fund of the State of Michigan, as of September 30, 2013, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Michigan Education Savings Program, a fiduciary fund of the State of Michigan, and do not purport to, and do not present the financial position of the State of Michigan in its entirety as of September 30, 2013, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, on our consideration of the Michigan Education Savings Program'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 Savings Program's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Okemos, Michigan
December 6, 2013

Michigan Education Savings Program

Management's Discussion and Analysis

September 30, 2013

This section of the Michigan Education Savings Program's (MESP or Program) financial statements presents a discussion and analysis of the Program's financial performance during the year ended September 30, 2013. MESP consists of two components, a Direct-Sold Plan managed by TIAA-CREF Tuition Financing, Inc. (TFI) and, effective December 1, 2009, the MI 529 Advisor Plan managed by TIAA-CREF for which Allianz Global Investors Distributors, LLC is the plan administrator and distributor. MESP is a fiduciary fund of the State of Michigan. Readers should consider the information presented in this section in conjunction with the Program's financial statements and notes to financial statements.

Financial Highlights

The Program received approximately \$218.5 million in net contributions from account owners for the year ended September 30, 2013.

The Program earned approximately \$63.7 million from investment operations and paid out approximately \$6.0 million for operating expenses during the year ended September 30, 2013.

As of November 14, 2012, the Conservative Age-Based Allocation Option, the Moderate Age-Based Allocation Option, and the Aggressive Age-Based Allocation Option within the Direct-Sold Plan were converted from six age bands to nine age bands. As a result, the 0-3 Age Band, 4-7 Age Band, 8-11 Age Band, 12-14 Age Band, 15-17 Age Band, and 18 & Over Age Band were closed and the 0-4 Age Band, 5-8 Age Band, 9-10 Age Band, 11-12 Age Band, 13-14 Age Band, 15 Age Band, 16 Age Band, 17 Age Band, and 18 & Over Age Band were opened.

Overview of the Financial Statements

The Program's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

This report consists of two parts, management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are composed of a statement of fiduciary net position, a statement of changes in fiduciary net position, and notes to financial statements that explain some of the information in the financial statements and provide more detailed information.

Michigan Education Savings Program

Management's Discussion and Analysis (continued)

The statement of fiduciary net position presents information on the Program's assets and liabilities, with the difference between the two reported as net position as of September 30, 2013. This statement, along with all of the Program's financial statements, is prepared using the accrual basis of accounting. Contributions are recognized when enrollment in the Program is finalized; subsequent contributions and redemptions are recognized on the trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The statement of changes in fiduciary net position presents information showing how the Program's assets changed during the most recent fiscal period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report presents the operating results and financial status of the Program, which the State of Michigan reports as a fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity.

Financial Analysis

Net Position

The following is a condensed statement of fiduciary net position as of September 30, 2013:

	<u>2013</u>	<u>2012</u>
Assets		
Investments	\$ 3,723,418,298	\$ 3,188,310,083
Cash	222,671	294,408
Receivables	5,511,699	3,634,898
Total assets	<u>3,729,152,668</u>	<u>3,192,239,389</u>
Liabilities – payables	5,781,973	4,032,466
Net position	<u>\$ 3,723,370,695</u>	<u>\$ 3,188,206,923</u>

Net position represents total contributions from account owners, plus the net increase from operations, less withdrawals and expenses.

Net position increased by 16.8 percent and 22.6 percent or \$535,163,772 and \$587,961,599 for the years ended September 30, 2013 and 2012, respectively. This increase is primarily due to the growth of the Michigan 529 Advisor Plan as well as positive economic conditions in the marketplace.

Michigan Education Savings Program

Management's Discussion and Analysis (continued)

Investments in MESP are approximately 100 percent of total net position, and consist of investments in the Direct-Sold Plan and investments in the MI 529 Advisor Plan. Investments in the Direct-Sold Plan include 33 investment portfolios, each of which invests in varying percentages in multiple TIAA-CREF funds, or the funding agreement issued by TIAA-CREF Life Insurance Company to the Program. Investments in the MI 529 Advisor Plan include 20 investment portfolios, which include 6 age-based investment portfolios, 2 static investment portfolios, and 12 select fund portfolios.

Other assets consist of cash and receivables for securities sold, contributions, and accrued income. Liabilities consist mainly of payables for securities purchased, withdrawals, and accrued expenses.

Changes in Net Position

The following is a condensed statement of changes in fiduciary net position for the years ended September 30, 2013 and 2012:

	2013	2012
Additions		
Subscriptions	\$ 1,635,527,733	\$ 1,069,653,984
Interest and dividends	63,679,363	55,751,379
Net increase in fair value of investments	259,012,356	346,071,967
Total additions - net	1,958,219,452	1,471,477,330
Deductions		
Redemptions	1,417,018,013	878,078,163
Operating expenses	6,037,667	5,437,568
Total deductions	1,423,055,680	883,515,731
Changes in net position	535,163,772	587,961,599
Net position – beginning of year	3,188,206,923	2,600,245,324
Net position – end of year	\$ 3,723,370,695	\$ 3,188,206,923

Total additions increased by \$486.7 million, from \$1.471 billion to \$1.958 billion due to new subscriptions, which are primarily as a result of an increase in the number of account holders. Total additions also increased due to income and gains from the underlying investments, offset by a decrease in market appreciation.

Total deductions increased by \$539.5 million, from \$884 million to \$1.423 billion due to an increase in redemptions, which can be attributed to the increase in number of account holders. Total deductions also increased due to an increase in operating expenses. Nearly all of the operating expenses increased because they are based on percentages of net position and net position increased from prior year.

Michigan Education Savings Program

Statement of Fiduciary Net Position

September 30, 2013

	The Direct-Sold Plan	MI 529 Advisor Plan	Total
Assets			
Cash	\$ -	\$ 222,671	\$ 222,671
Investments - at fair market value (Note 4)	3,483,936,871	239,481,427	3,723,418,298
Dividends and interest receivable	1,574,174	-	1,574,174
Receivable for securities transactions	569,310	-	569,310
Receivable for Program units sold	2,748,836	619,379	3,368,215
Total assets	3,488,829,191	240,323,477	3,729,152,668
 Liabilities			
Accrued Program management fee	399,457	89,712	489,169
Payable for securities transactions	2,946,757	233,989	3,180,746
Payable for Program units redeemed	1,652,791	98,515	1,751,306
Other liabilities	268,748	92,004	360,752
Total liabilities	5,267,753	514,220	5,781,973
Net Position - Held in trust for participant education savings program	\$ 3,483,561,438	\$ 239,809,257	\$ 3,723,370,695

The notes to the financial statements are an integral part of this statement.

Michigan Education Savings Program

Statement of Changes in Fiduciary Net Position

Year Ended September 30, 2013

	The Direct-Sold Plan	MI 529 Advisor Plan	Total
Additions			
Subscriptions	\$ 1,508,895,963	\$ 126,631,770	\$ 1,635,527,733
Investment Income:			
Interest and dividends	58,385,789	5,293,574	63,679,363
Net increase in fair value of investments	249,643,798	9,368,558	259,012,356
Total investment income	308,029,587	14,662,132	322,691,719
 Total additions	 1,816,925,550	 141,293,902	 1,958,219,452
Deductions			
Redemptions	1,359,792,747	57,225,266	1,417,018,013
Operating expenses	4,013,183	2,024,484	6,037,667
Total deductions	1,363,805,930	59,249,750	1,423,055,680
 Changes in net position	 453,119,620	 82,044,152	 535,163,772
Net position - beginning of year	3,030,441,818	157,765,105	3,188,206,923
Net position - end of year	\$ 3,483,561,438	\$ 239,809,257	\$ 3,723,370,695

The notes to the financial statements are an integral part of this statement.

Michigan Education Savings Program

Notes to Financial Statements

September 30, 2013

1. Organization

The Michigan Education Savings Program (Program), a fiduciary fund of the State of Michigan, is designed to help people save for the costs of higher education. The Program was established by the Michigan Department of Treasury and is administered by the State Treasurer of Michigan (Treasurer), who acts as trustee of the Program. The Program constitutes a qualified tuition program under Section 529 of the Internal Revenue Code and was established pursuant to Section 529 and the Michigan Compiled Laws 390.1471 et seq. The Program consists of two components, the Direct-Sold Plan managed by TIAA-CREF Tuition Financing, Inc. (TFI) and, effective December 1, 2009, the MI 529 Advisor Plan managed by Allianz Global Investors Distributors, LLC. Investment options and allocations, as approved by the Treasurer, are described in the current disclosure booklet for each respective component. The Treasurer has the authority to enter into contracts for program management services, appoint a program manager, adopt policies and operating procedures to implement and administer the Program, and establish investment policies for the Program.

TIAA-CREF Tuition Financing, Inc., a wholly-owned subsidiary of Teachers Insurance and Annuity Association of America (TIAA), manages the Direct-Sold Plan under the direction of the Treasurer pursuant to a contract that it has entered into with the State of Michigan. The assets in the Principal Plus Interest Option are allocated to a funding agreement issued by TIAA-CREF Life Insurance Company (TIAA-CREF Life), a subsidiary of TIAA. The funding agreement guarantees to the Michigan Department of Treasury a return of principal plus a minimum rate of interest and provides the opportunity for additional interest as declared periodically by TIAA-CREF Life. Teachers Advisors, Inc. (Advisors), an affiliate of TFI, is registered with the Securities and Exchange Commission as an investment advisor and provides investment advisory services to the TIAA-CREF funds.

As of November 14, 2012, the Conservative Age-Based Allocation Option, the Moderate Age-Based Allocation Option, and the Aggressive Age-Based Allocation Option within the Direct-Sold Plan were converted from six age bands to nine age bands. As a result, the 0-3 Age Band, 4-7 Age Band, 8-11 Age Band, 12-14 Age Band, 15-17 Age Band, and 18 & Over Age Band were closed and the 0-4 Age Band, 5-8 Age Band, 9-10 Age Band, 11-12 Age Band, 13-14 Age Band, 15 Age Band, 16 Age Band, 17 Age Band, and 18 & Over Age Band were opened.

The MI 529 Advisor Plan component of the Michigan Education Savings Program was established under Public Act (PA) No. 161 of 2000 of the State of Michigan, which was amended by PA No. 153 of 2007, and is maintained by the State Treasurer, as trustee for the MI 529 Advisor Plan. TFI acts as the program manager for the MI 529 Advisor Plan. TFI, per the State's approval, has delegated the responsibilities of being the administrator and distributor to

Michigan Education Savings Program

Notes to Financial Statements (continued)

1. Organization (continued)

Allianz Global Investors Distributors, LLC (AGID or Program Administrator). AGID provides services to the plan including administration, distribution, and investment management services. AGID has delegated the investment-related functions for the Program to Allianz Global Investors Solutions, LLC (AGIS), including making recommendations to the State Treasurer, as trustee for the plan, as to the formulation of the investment options and the selection of the underlying funds and asset allocations among such funds. On January 1, 2013, AGIS merged into Allianz Global Investors U.S. LLC (AGI U.S.) (formerly Allianz Global Investors Capital LLC). AGI U.S. is an affiliate of AGID and is registered as an investment advisor with the Securities Exchange Commission (SEC).

2. Significant Accounting Policies

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), which may require the use of estimates made by management. Actual results may differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Program.

Valuation of Investments

The market value of the investments in the underlying mutual funds is based on the net asset values of the respective classes of the mutual funds on the close of business on the valuation date. The value of the TIAA-CREF Life funding agreement (within the Direct-Sold Plan), to which the Principal Plus Interest Option allocates assets, is stated at the principal contributed and earnings credited less any withdrawals to date which, in the good faith judgment of the program manager, approximates fair value. The TIAA-CREF Life funding agreement has a floating rate of interest that resets annually based on a projected rate of return.

Units

The beneficial interest for each account owner in the investment options are represented by Program units. Subscriptions and redemptions are recorded upon receipt of the account owner's instructions in good order, based on the next determined daily net asset value per unit (Unit Value). Unit Values for each investment option are determined at the close of business of the New York Stock Exchange.

Investment Transactions

Portfolio transactions, normally in shares of the underlying funds, are accounted for as of the trade date. Realized gains and losses are determined on the identified cost basis.

Michigan Education Savings Program

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Withdrawals

The earnings portions of nonqualified and penalty-free withdrawals are taxable to the account owner or the beneficiary. Earnings portions of nonqualified withdrawals also may be subject to a federal penalty tax.

Distributions

All net investment income and net realized gains of the portfolios will be reinvested in the portfolios; distributions will not be declared.

Investment Income

Income from the underlying funds, if any, is recorded on the ex-dividend date. Long-term capital gains distributions, if any, from underlying funds are a component of realized gain (loss). Interest income is recorded as earned. Dividend income and capital gain distributions are recorded on the ex-dividend date.

Income Taxes

The Program is exempt from federal income tax under Section 529 of the Internal Revenue Code of 1986. Accordingly, no provision for federal income taxes has been made.

3. Management Agreements

A separate management agreement exists for the Direct-Sold Plan and the MI 529 Advisor Plan.

Direct-Sold Plan

During the fiscal year, for its services as program manager of the Direct-Sold Plan, with respect to all investment options (other than the Principal Plus Interest Option) TFI is paid an annual aggregate program management fee of 0.06% of the average daily net position of the Direct-Sold Plan invested in such options. The program management fee will be reduced to 0.05% if and when total assets in the Direct-Sold Plan become equal to or greater than \$4.0 billion. In addition, Advisors is paid investment management fees on the underlying investments in the funds.

On September 18, 2013, total assets on the Direct-Sold Plan exceeded \$3.5 billion. Prior to this date, for its services as program manager, TFI was paid an annual aggregate program management fee of 0.08% of the average daily net position invested in such options (with the exception of the Principal Plus Interest Option).

Michigan Education Savings Program

Notes to Financial Statements (continued)

3. Management Agreements (continued)

Direct-Sold Plan (continued)

Prior to November 14, 2012, for its services as the program manager with respect to the Conservative Age-Based Allocation Option, the Moderate Age-Based Allocation Option, the Aggressive Age-Based Allocation Option, the Global Equity Index Option, the Balanced Option, and the 100% Fixed Income Option, TFI was paid an annual aggregate program management fee of 0.04% to 0.19% of the average daily net position of the Program, invested in such options. In addition, TFI was paid a program management fee for managing the assets of the Matching Grant Accounts. TFI received a fee of 0.22% of the average daily net position. The program management fee plus the weighted average expenses of each of the underlying mutual funds in the Conservative Age-Based Allocation Option, the Moderate Age-Based Allocation Option, the Aggressive Age-Based Allocation Option, the Global Equity Index Option, the Balanced Option, the 100% Fixed Income Option, and the Matching Grant Accounts did not exceed 0.35% of the average daily net position.

For its services related to administering the Program, each investment option (with the exception of the Principal Plus Interest Option) pays to the Michigan Department of Treasury an administrative fee at an annual rate of 0.05% of the average daily net position held by that option.

The Principal Plus Interest Option does not pay a fee to the program manager or to the Michigan Department of Treasury; however, a fee is paid to TFI by TIAA-CREF Life. TIAA-CREF Life will also pay the Michigan Department of Treasury a fee equal to 0.05% of the average daily net position held by the Principal Plus Interest Option.

MI 529 Advisor Plan

The State of Michigan has entered into a program management agreement with TFI, which has subcontracted with AGID to provide administrative, recordkeeping, marketing, and investment management services to the MI 529 Advisor Plan. Account owners bear expenses at the plan level and also the expenses of investing in the underlying funds.

The Program compensates AGID for services provided and expenses incurred in connection with assistance rendered in the sale of units and services rendered to unit-holders and for maintenance of unit-holder accounts of A and C units. The Program paid AGID distribution and servicing and administration fees at an effective annual rate as set forth below (calculated as a percentage of each portfolio's average daily net position attributable to each class):

Michigan Education Savings Program

Notes to Financial Statements (continued)

3. Management Agreements (continued)

MI 529 Advisor Plan (continued)

	Class A Units	Class A Units
Program management fee ^{1,5}	0.50%	0.50%
Servicing and administrative fee:		
TIAA-CREF Money Market Portfolio	0.10%	0.10%
Other portfolios	0.25%	0.08%, 0.15% ³
Distribution fee:		
TIAA-CREF Money Market Portfolio	None	None
Other portfolios	None	0.25%, 0.50% ²
State administration fee ⁴	0.10%	0.10%

¹ A portion of the program management fee is paid by AGID to the program manager monthly.

² The Age-Based and Static Investment Portfolios are assessed a distribution fee of 0.50 percent. The individual Investment Portfolios are assessed a distribution fee of 0.25 percent.

³ The Age-Based and Static Investment Portfolios are assessed a servicing and administrative fee of 0.15 percent. The individual Investment Portfolios are assessed a servicing and administrative fee of 0.08 percent.

⁴ Paid directly to the State of Michigan to administer and maintain the State of Michigan's qualified tuition programs.

⁵ To maintain certain net yields for the TIAA-CREF Money Market Portfolio, AGID may temporarily and voluntarily waive all or a portion of the Portfolio's program management fee. AGID shall determine the amount and the time period of each such waiver. Such waivers may be discontinued by AGID at any time without notice. There is no guarantee that the Portfolio will maintain a positive net yield. For the year ended September 30, 2013, the effective program management fee paid by the Portfolio was 0.00% for A and C Units.

AGID also receives the proceeds of the initial sales charge paid by the unit-holders upon the purchase of A units and the contingent deferred sales charges paid (CDSC) by a unit-holder upon certain redemptions of C units as described in detail in the prevailing plan disclosure statement. Units of TIAA-CREF Money Market Portfolio are not subject to initial sales charge or CDSC. For the year ended September 30, 2013, AGID received approximately \$203,000 in initial sales charges and \$130,000 in CDSC. All or a substantial portion of the sales charges paid by the investor may be paid to the selling financial intermediary through which the account owners make their investments.

Each account will indirectly bear the expense applicable to the underlying funds in which each of the investment portfolios invests.

Michigan Education Savings Program

Notes to Financial Statements (continued)

4. Investments

Investments consist of investments in the Direct-Sold Plan and investments in the MI 29 Advisor Plan. Investments in the Direct-Sold Plan include 33 investment portfolios, each of which invests in varying percentages in multiple TIAA-CREF funds, or the funding agreement issued by TIAA-CREF Life Insurance Company to the Program. Investments in the MI 529 Advisor Plan sold program include 20 portfolios which include 6 age-based investment portfolios, 2 static investment portfolios, and 12 select fund portfolios.

Cash Deposits

Cash deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$222,671 as of September 30, 2013. The entire amount was covered by federal depository insurance coverage.

Michigan Education Savings Program

Notes to Financial Statements (continued)

4. Investments (continued)

As of September 30, 2013 the Program's significant investments consisted of the following:

	Cost	Market Value
The Direct-Sold Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	\$ 838,031,046	\$ 812,640,440
Emerging Markets Equity Index Fund	79,666,315	81,483,547
Equity Index Fund	991,064,412	1,237,427,121
Inflation-Linked Bond Fund	259,273,192	239,896,921
International Equity Index Fund	406,929,911	496,213,419
Real Estate Securities Fund	107,388,688	113,257,438
TIAA-CREF Life Insurance Company:		
Funding agreement	503,017,985	503,017,985
Subtotal	3,185,371,549	3,483,936,871
MI 529 Advisor Plan:		
Age-based Investment Portfolios		
0 to 8 years	59,029,661	64,152,475
9 to 11 years	26,523,482	28,442,467
12 to 14 years	29,543,534	30,724,501
15 to 16 years	19,316,721	19,495,319
17 to 18 years	12,066,661	12,012,260
Over 19 years	5,702,959	5,622,900
Static Investment Portfolios:		
Capital Appreciation Investment Portfolio	18,932,926	20,569,311
Capital Preservation Investment Portfolio	6,204,385	6,188,312
Select Fund Portfolios:		
PIMCO Diversified Income Investment Portfolio	3,641,242	3,553,144
PIMCO Global Multi-Asset Investment Portfolio	12,302,321	11,063,368
PIMCO Real Return Investment Portfolio	3,166,480	2,947,662
PIMCO Total Return Investment Portfolio	9,679,208	9,389,040
AllianzGI Disciplined Equity Investment Portfolio	2,414,252	2,747,817
AllianzGI Income & Growth Investment Portfolio	4,287,051	4,386,713
AllianzGI NFJ International Value Investment Portfolio	2,856,911	3,141,605
AllianzGI NFJ Large-Cap Value Investment Portfolio	2,892,161	3,458,444
TIAA-CREF International Equity Index Investment Portfolio	1,169,418	1,352,791
TIAA-CREF S&P 500 Index Investment Portfolio	3,897,642	4,565,486
TIAA-CREF Small Cap Blend Index Investment Portfolio	2,723,209	3,440,146
TIAA-CREF Money Market Portfolio	2,227,666	2,227,666
Subtotal	228,577,890	239,481,427
Total	\$ 3,413,949,439	\$ 3,723,418,298

Michigan Education Savings Program

Notes to Financial Statements (continued)

4. Investments (continued)

An account owner has an investment in an investment option and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that investment option may be allocated.

Certain investments are subject to a variety of investment risks based on the amount of risk in the underlying funds. The GASB requires that entities disclose certain essential risk information about deposits and investments. All of the Program's investment options are uninsured and unregistered and are held by a custodian in the Program's name.

The mutual funds in which the portfolios invest are comprised of various investment securities, which include corporate debt and equity securities, obligations of the United States government and government agencies, and international equity securities. Certain underlying funds may invest in certain specified derivative securities, including interest rate and credit default swaps; caps and floors for hedging purposes; exchange-traded options; and over-the-counter options executed with primary dealers, including long calls and puts and covered calls and financial futures and options. Certain underlying funds may invest in restricted securities: instruments issued by trusts, partnerships, or other issuers, including pass-through certificates representing participations in, or debt instruments backed by, the securities owned by such issuers. These underlying funds also may engage in securities lending, reverse repurchase agreements, and dollar roll transactions. In addition, certain underlying funds may invest in mortgage-backed securities, structured investment vehicles, below-investment grade debt, debt obligations of foreign issuers and stocks of foreign corporations, securities in foreign investment funds or trusts, foreign derivative securities including futures contracts, options, interest rate and currency swap transactions, and various other investment vehicles, each with inherent risks, including market, credit, interest rate, foreign currency leverage, and liquidity risks. Due to the level of risk associated with these investment securities, it is at least reasonably possible that changes in their fair values may occur in the near term and that such changes could materially affect account owner balances and the amounts reported in the Program's financial statements.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure, the Program's deposits and investments may not be returned. The Program does not have formal custodial credit risk policies for investments. An account owner has an investment in an investment option and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that investment option may be allocated. Because of this ownership structure, the custodial credit risk is significantly mitigated.

Michigan Education Savings Program

Notes to Financial Statements (continued)

4. Investments (continued)

Credit Risk

The underlying funds investing primarily in fixed-income securities are subject to credit risk. Credit risk is the potential of failure of the other party to pay interest and principal when due as a result of adverse market or economic conditions. The Program does not have formal investment policies for managing credit risk. The underlying mutual funds do not carry a formal credit quality rating. The underlying funding agreement, to which the Principal Plus Interest Option of the Direct-Sold Plan allocates assets, is a guaranteed insurance product issued by TIAA-CREF Life. TIAA-CREF Life has a Standard & Poor's credit rating of AA+ as of September 30, 2013.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Program does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of September 30, 2013, the average maturities for the underlying fixed-income mutual funds are as follows:

	Market Value	Average Maturity
The Direct-Sold Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	\$ 812,640,443	7.03 years
Inflation-Linked Bond Fund	239,896,920	8.55 years
MI 529 Advisor Plan:		
Allianz Portfolios:		
AllianzGI Short Duration High Income Fund	4,196,596	3.68 years
PIMCO Commodities PLUS Strategy Fund	5,261,657	0.69 years
PIMCO Diversified Income Fund	3,553,144	8.06 years
PIMCO Floating Income Fund	6,822,104	2.03 years
PIMCO Foreign Bond Fund (U.S. Dollar-Hedged)	10,055,468	8.33 years
PIMCO Global Multi-Asset Fund	11,063,368	3.44 years
PIMCO Income Fund	10,862,152	7.04 years
PIMCO RealEstateRealReturn Strategy Fund	3,599,857	11.84 years
PIMCO Real Return Fund	18,215,436	7.97 years
PIMCO Short-Term Fund	16,969,188	1.19 years
PIMCO Total Return Fund	13,793,045	5.15 years
TIAA-CREF Money Market Fund	8,829,326	n/a

Michigan Education Savings Program

Notes to Financial Statements (continued)

4. Investments (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments in foreign securities. The Program does not have formal foreign currency risk policies for investments. Certain investment options allocate assets to underlying mutual funds that are exposed to foreign currency risk. The Program does not have any direct investment in foreign fixed-income securities. As of September 30, 2013, the values of investments in underlying mutual funds that primarily invest in foreign securities are as follows:

Investment	Market Value
The Direct-sold Plan:	
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Index Fund	\$ 81,483,548
International Equity Index Fund	496,213,417
MI 529 Advisor Plan:	
Allianz Portfolios:	
AllianzGI Emerging Markets Opportunities Fund	4,319,859
AllianzGI Global Commodity Equity Fund	2,471,856
AllianzGI International Managed Volatility Fund	6,829,520
AllianzGI International Small-Cap Fund	3,253,659
AllianzGI NFJ Global Dividend Value Fund	3,096,882
AllianzGI NFJ International Value Fund	12,624,181
PIMCO Diversified Income Fund	3,553,144
PIMCO Floating Income Fund	6,822,104
PIMCO Foreign Bond Fund (U.S. Dollar-Hedged)	10,055,468
PIMCO Global Multi-Asset Fund	11,063,368
TIAA-CREF International Equity Index Fund	11,902,674

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

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

Mr. Kevin Clinton, Trustee, Michigan Education Savings Program, Michigan
Department of Treasury
Mr. Thomas H. McTavish, CPA, Auditor General, State of Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Michigan Education Savings Program (Program), a fiduciary fund of the State of Michigan, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 our testing, and not to provide an opinion on the effectiveness of the Program'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 Program's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

Andrews Hooper Paulik PLC

Okemos, Michigan
December 6, 2013