

State of Michigan 457 Plan

**Financial Report
September 30, 2013**

State of Michigan 457 Plan

Table of Contents

Independent Auditor’s Report	3
Management’s Discussion and Analysis	6
Basic Financial Statements	
Statement of Plan Net Position	12
Statement of Changes in Plan Net Position	13
Notes to the Financial Statements	14
Glossary	22

INDEPENDENT AUDITOR'S REPORT



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
and Other Reporting Required by *Government Auditing Standards*

John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Michigan 457 Plan as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

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

John E. Nixon, C.P.A., Director
Mr. Phillip J. Stoddard, Director
Page 2

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of the State of Michigan 457 Plan as of September 30, 2013 and the changes in net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the State of Michigan 457 Plan and do not purport to, and do not, present fairly the financial position of the State of Michigan or its pension (and other employee benefit) trust funds as of September 30, 2013 and the changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Plan'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 Plan's internal control over financial reporting and compliance.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General
December 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

State of Michigan 457 Plan

Management's Discussion and Analysis

This section presents our discussion and analysis of the State of Michigan 457 Plan's (the Plan's) financial performance and provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2013, and September 30, 2012. This section should be read in conjunction with the Plan's basic financial statements.

Using This Annual Financial Report

This annual financial report consists of two parts: (1) management's discussion and analysis (this section) and (2) the Plan's basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current and prior year:

	Fiscal Years Ended September 30	
	2013	2012
Plan Net Position	<u>\$ 1,784,538,690</u>	<u>\$ 1,689,407,101</u>
Net investment gain (loss)	\$ 174,447,464	\$ 197,105,838
Contributions - Employees	62,322,599	48,746,370
Contributions - Employers	557,253	171,725
Contributions - Transfers from other systems	777,608	77,461
Benefits paid	(66,250,371)	(71,011,836)
Refunds and payments to other systems	(72,153,967)	(67,267,075)
Other income and expenses - net	(4,568,997)	(4,473,174)
Net Increase (Decrease) in Plan Net Position	<u>\$ 95,131,589</u>	<u>\$ 103,349,309</u>

State of Michigan 457 Plan

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The Plan was established by the Civil Service Commission in 1974 as a means for State employees to save for retirement. State employees are eligible to participate in the Plan as of the first day of employment and may voluntarily contribute a portion of their compensation up to the established Internal Revenue Code limits.

The Plan was amended in fiscal year 2009-10 to expand the definition of employer to include Michigan public school reporting units and participants to include members of the Michigan Public School Employees' Retirement System (MPERS) hired on or after July 1, 2010. These participants are offered the pension plus plan that includes both defined benefit and defined contribution retirement benefits. The defined benefit component is accounted for in the Michigan Public School Employees' Retirement System. For the defined contribution component, participant contributions are accounted for in the State of Michigan 457 Plan and employer contributions are accounted for in the State of Michigan 401K Plan as specified in the Plan Documents.

Effective December 15, 2011, Acts 264 and 265, P.A. 2011, amended the State Employees' Retirement Act (Act 240, P.A. 1943) and the Public Employee Retirement Health Care Funding Act (Act 77, P.A. 2010), respectively. The change provided for a refund of the 3% employee contributions withheld under Act 185, P.A. 2010, and gave employees the option to contribute all or a portion of their refunds into the State of Michigan 401K Plan or 457 Plan. This amendment also provided existing defined contribution retirement plan participants with the option to retain the current retiree health insurance plan or to choose a portable personal healthcare fund, which may be used to pay healthcare expenses in retirement. The defined contribution plan participants who elected to switch to a personal healthcare fund would monetize existing years of service for deposit into the State of Michigan 401K Plan or 457 Plan and would receive an employer match of up to 2% of future compensation. The amendment also eliminated the retiree health insurance plan for employees hired on or after January 1, 2012 and replaced it with a portable personal healthcare fund in which employees receive an employer match of up to 2% of compensation that is deposited into the State of Michigan 401K Plan or 457 Plan.

State of Michigan 457 Plan

Management's Discussion and Analysis (Continued)

During fiscal year 2011-12, an Interlocal Agreement between the Education Achievement Authority (EAA) and the Department of Technology, Management, and Budget allowed EAA employees to participate in the State of Michigan 401K Plan and 457 Plan.

Effective September 4, 2012, Act 300, P.A. 2012, provided public school employees with options on future retirement pension benefits. Existing defined benefit participants could elect to freeze pension benefits earned to date and move to the defined contribution plan for future years of service. Employees hired on or after September 4, 2012 could elect the defined contribution plan instead of the current pension plus plan.

Asset Allocation

All participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices as are made available and those policies or procedures as are determined by the trustee and the administration from time to time. The Plan has no control over investment decisions made by the participants. Plan assets may be invested and reinvested in various instruments as deemed appropriate by the trustee and Plan management. Several investment tiers have been developed and made available to participants. A summary of the types of investments is listed in Note 3.

Investment Results

During 2013, investors have been preoccupied with the timing and pace of tapering the reduction of the U.S. Federal Reserve's \$85 billion per month bond-buying effort. The economic data flow, while mixed, suggested a growing economy. Gross domestic product (GDP) growth for the second quarter came in at 2.5%, well ahead of the first quarter's 1.1% rate and in excess of estimates.

In its new fiscal year, Congress was unable to reach an accord on legislation to fund the government. While a relatively brief shutdown had only a minor impact on the real economy, it highlighted the rancor in our nation's capital and calls into question the ability of lawmakers to address the far more impactful debt limit which has reached the \$16.7 trillion debt ceiling.

State of Michigan 457 Plan

Management's Discussion and Analysis (Continued)

Europe is fearful of the impact of a potential default by its most important trading partner. The European Central Bank maintained its benchmark lending rate at a record-low 0.5%. Inflation fell to a more than three-year low in September. The euro zone returned to expansion in the second quarter after a six-quarter recession while the final annualized GDP growth came in at 1.2% and more recent data confirmed a slight economic momentum.

A more pronounced resurgence can be found in Japan where economic growth for the second quarter was 3.8%. This represents the third consecutive quarter of GDP growth for the country. Japanese consumer prices in August rose at the fastest pace in five years. There is a planned 2014 increase in the country's sales tax to 8% from 5% which is intended to address Japan's 1 quadrillion yen debt load. Of this new tax revenue, 75% will be pumped back into the economy via a new stimulus program.

China's second quarter GDP growth of 7.5% was down from the first quarter's 7.7% expansion. Beijing has taken a relatively light-handed approach during this period of relatively sluggish growth as it attempts to transition the economy for long-term success. In the latest example of its commitment to structural reform, the government established a free-trade zone in Shanghai that it intends to use as an incubator for potential nationwide reforms.

U.S. stock markets grew choppy in the third quarter after a very strong first half but were still able to deliver stout returns for the period. NASDAQ was the most robust, gaining 10.8% year-to-date through the third quarter. The S&P 500 gained 5.2% and the Dow Jones Industrial Average moved up by a modest 1.5%. Small caps outperformed the mid- and large-cap stocks by a large margin while growth outperformed value across the capitalization spectrum. The international developed markets rebounded from a negative second quarter to outpace the US exchanged in the third.

Treasury yields sold off for most of the quarter in anticipation of a September taper, only to rally once the U.S. Federal Reserve announced it would maintain its bond-buying program at full strength. While the Fed will eventually begin to taper, we believe it will be slow to remove monetary stimulus in response to a strengthening economy. Market analysts believe it will unwind its zero interest rate policy at a very measured pace.

State of Michigan 457 Plan

Management's Discussion and Analysis (Continued)

Combined, that means extremely Accommodative policy for years to come. Fixed income returns ultimately will depend on the market's judgment of whether quantitative easing has succeeded in creating real economic strength. Given this environment, spread assets may perform well and security selection will be increasingly important given the valuations of financial assets.

Contacting Management

This report is designed to provide the retirement board, Plan participants, taxpayers, investors, and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Position

As of September 30, 2013

	<u>State of Michigan Deferred Compensation Fund</u>	<u>Public School Deferred Compensation Fund</u>	<u>Education Achievement Authority - Deferred Compensation Fund</u>	<u>Total</u>
Assets				
Equity in Common Cash	\$ 1,162,233	\$ 2,717,607		\$ 3,879,840
Participant-directed investments, at fair value/contract value (Note 3):				
Stable Value Fund	668,752,004	32,399	\$ 365	668,784,768
ING Small Cap Growth Equity Fund	40,572,723	42,739	2,190	40,617,652
Mutual funds	412,155,817	357,266	6,368	412,519,451
Common trust funds	585,234,415	25,903,429	1,635,519	612,773,363
Tier III investments	47,723,539	8,165		47,731,704
Other receivable	298,894	891,795		1,190,689
Total assets	<u>\$ 1,755,899,625</u>	<u>\$ 29,953,400</u>	<u>\$ 1,644,442</u>	<u>\$ 1,787,497,467</u>
Liabilities				
Accounts Payable	1,417,089	1,541,688		2,958,777
Total liabilities	<u>\$ 1,417,089</u>	<u>\$ 1,541,688</u>	<u>\$ 0</u>	<u>\$ 2,958,777</u>
Plan Net Position	<u>\$ 1,754,482,536</u>	<u>\$ 28,411,712</u>	<u>\$ 1,644,442</u>	<u>\$ 1,784,538,690</u>

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

Statement of Changes in Plan Net Position

As of September 30, 2013

	State of Michigan Deferred Compensation Fund	Public School Deferred Compensation Fund	Education Achievement Authority - Deferred Compensation Fund	Total
Additions to Net Position				
Investment income (loss):				
Interest and dividends	\$ 28,126,244	\$ 8,516	\$ 24	\$ 28,134,784
Net appreciation (depreciation) in fair value of investments	144,107,209	2,086,674	118,797	146,312,680
Total investment income (loss)	<u>\$ 172,233,453</u>	<u>\$ 2,095,190</u>	<u>\$ 118,821</u>	<u>\$ 174,447,464</u>
Contributions:				
Employees	\$ 42,409,278	\$ 18,386,121	\$ 1,527,200	\$ 62,322,599
Employers	449,224	108,029		557,253
Transfers from other systems	714,069	63,539		777,608
Total contributions	<u>\$ 43,572,571</u>	<u>\$ 18,557,689</u>	<u>\$ 1,527,200</u>	<u>\$ 63,657,460</u>
Miscellaneous income	<u>\$ 671,012</u>			<u>\$ 671,012</u>
Total additions	<u>\$ 216,477,036</u>	<u>\$ 20,652,879</u>	<u>\$ 1,646,021</u>	<u>\$ 238,775,936</u>
Deductions from Net Position				
Benefits paid to participants	\$ 66,015,945	\$ 211,346	\$ 23,080	\$ 66,250,371
Administrative and investment expenses	4,203,725	1,021,805	14,479	5,240,009
Refunds and payments to other systems	72,037,387	77,647	38,933	72,153,967
Total deductions	<u>\$ 142,257,057</u>	<u>\$ 1,310,798</u>	<u>\$ 76,492</u>	<u>\$ 143,644,347</u>
Net increase (Decrease)	<u>\$ 74,219,979</u>	<u>\$ 19,342,081</u>	<u>\$ 1,569,529</u>	<u>\$ 95,131,589</u>
Plan Net Position				
Beginning of fiscal year	\$ 1,680,262,557	\$ 9,069,631	\$ 74,913	\$ 1,689,407,101
End of fiscal year	<u>\$ 1,754,482,536</u>	<u>\$ 28,411,712</u>	<u>\$ 1,644,442</u>	<u>\$ 1,784,538,690</u>

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

State of Michigan 457 Plan

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of Michigan 457 Plan is a deferred compensation plan sponsored by the State of Michigan. The Plan is considered part of the State and is included in the *State of Michigan Comprehensive Annual Financial Report* as a pension (and other employee benefit) trust fund.

The Plan covers employees of the State of Michigan, employees of the Michigan public school reporting units hired on or after July 1, 2010, and employees of the Education Achievement Authority (EAA). Act 264, P.A. 2011, established the Personal Healthcare Fund within the Plan for State employees, which can be used to pay healthcare expenses in retirement.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements present only the State of Michigan 457 Plan. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan as a whole or its pension (and other postemployment benefit) trust funds in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The Plan uses the economic resources measurement focus and the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Investments

Investments in the ING Small Cap Growth Equity Fund, mutual funds, common trust funds, and Tier III investments are stated at fair value based on quoted market prices. The Stable Value

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

Fund is stated at contract value (see Note 3 for additional information). Investments in common trust funds are funds managed by State Street Global Advisors (SSgA) and Rainer Investment Management, similar to mutual funds though not registered like mutual funds. The value of the Plan's position in the common cash fund is equivalent to the fair value of the common cash fund shares.

NOTE 2 – GENERAL DESCRIPTION OF THE PLAN

The following description provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions. The Plan Document is available on the State of Michigan's Office of Retirement Services' Web site.

General

The Plan was established by the Civil Service Commission in 1974. The first enrollment was on April 17, 1975, with contributions starting in May 1975. The Plan Document was last amended and restated effective January 1, 2012 to incorporate all amendments, update changes required by law, and add new sections for changes in provisions made during the Plan year. As of September 30, 2013, the Plan included 25,560 State of Michigan participants, 63,504 Michigan public school participants, and 564 EAA participants.

Eligibility

Employees of the State of Michigan, public school employees hired on or after July 1, 2010, and EAA employees are eligible to participate in the Plan as of the first day of employment.

Contributions

Employees may voluntarily elect to contribute a portion of their compensation to the Plan through payroll deductions, limited in accordance with the Internal Revenue Code. Certain employees may also be allowed to make "catch-up" contributions in accordance with the Internal Revenue Code.

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

The Plan provides for the Personal Healthcare Fund for State of Michigan employees hired on or after January 1, 2012 and Public School employees hired on or after September 4, 2012 to account for employee contributions and an employer match of up to 2% of compensation. State employees hired prior to January 1, 2012 and who opted out of the graded premium receive an employer match of up to 2% of future compensation plus a monetized amount for existing years of service upon terminating employment. Public School employees hired prior to September 4, 2012 and who opted out of the graded premium receive an employer match of up to 2% of future compensation.

Contributions from Other Systems

Active employees may roll over money from another 457 plan into their State of Michigan 457 Plan account. Participants may withdraw funds rolled into the Plan at any time.

Participant Account

Each participant's account is credited with his or her contributions and an allocation of the Plan's earnings. Allocations are based on the participant's account balance to reflect the effect of income or losses from the particular investments. The benefit to which a participant is entitled is limited to the benefit that can be provided from the participant's account.

Vesting

Participants are 100% vested in their contributions and related earnings or losses at all times. Participants in the Personal Healthcare Fund are vested in employer contributions based on years of service over a four-year period. A participant is 100% vested after four years of service credit. A year of service is defined as 2,080 hours.

Payment of Benefits

Participants may withdraw their funds upon leaving employment. Withdrawal of participant funds may be by lump sum, monthly payments, annual payments, or rollovers to other qualified

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

plans. Payments may occur over a period not to exceed life expectancy from the date that the payments begin. In-service benefit payments are permitted for various reasons as outlined in the Plan Document.

Refunds and Payments to Other Systems

Upon leaving employment, participants may roll over all or a portion of their account balances to other qualified plans or use all or a portion of their account balances to purchase preapproved service credit in the State of Michigan's Defined Benefit Retirement Plan.

Tax Status

The U.S. Department of Treasury made a determination on July 16, 1975 that the Plan constitutes a qualified trust under Section 401(a) of the Internal Revenue Code and is, therefore, exempt from federal income tax. Although the Plan has been subsequently amended and restated, management believes that the Plan continues to operate as a qualified trust.

NOTE 3 – INVESTMENTS

All investments are participant directed. The mutual funds are registered with the Securities and Exchange Commission, and the guaranteed investment contracts (GICs) are regulated by State insurance departments. Three investment tiers have been developed to classify the investments, available to participants, based upon the general investment strategy. Tier I contains funds which have a passive investment strategy. These investments are managed to mirror investment performance of an established index. Tier II contains funds which have an active investment strategy. These investments are managed actively by an investment advisor using a specific fund investment objective. Tier III contains accounts with investments which are self-directed by the participant. These are not managed passively or actively by anyone other than the participant. A brief summary of the types of investments included in each tier follows:

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

Tier I - Stable Value Fund and common trust funds that include SSgA Yield Enhanced STIF (discontinued during August, 2013 and all investment balances were transferred to the SSgA Cash Series Treasury Fund), SSgA Cash Series Treasury Fund – Class G, SSgA Bond Market Index Fund, SSgA S&P 500 Index Fund, SSgA S&P Mid Cap Index Fund, SSgA Russell 2000 Index Fund, SSgA Global All Cap Equity ex-U.S. Index Fund, SSgA Target Retirement Income Fund, and SSgA Target Retirement Funds ranging in retirement dates from 2010 through 2055.

Tier II - ING Small Cap Growth Equity Fund, Rainier Large Cap Growth Equity Fund (common trust fund), and mutual funds that include Dodge & Cox Stock Fund, Oakmark Equity and Income Fund, T. Rowe Price Mid Cap Value Fund, Ridgeworth Small Cap Value Equity Fund, American Funds EuroPacific Growth Fund, Artisan Mid Cap Fund, PIMCO Total Return Fund, and SSgA Emerging Markets Fund.

Tier III - Individual stocks and bonds and thousands of mutual funds (load, no-load, and no-fee/no-load) from a multitude of fund families are available through the Plan's third party administrator. The various types of investments within Tier III are self-managed by the participants and are not separately classified by type of investment by the Plan's third party administrator. These self-managed stocks, bonds, and mutual funds are presented on the statement of plan net position as Tier III investments.

Investment Risk:

The Plan's investments are subject to several types of risk. As of September 30, 2013, the Plan did not have any investments subject to custodial credit risk or concentration of credit risk. Other types of risk are examined in more detail below:

a. 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 Plan's investment policy does not restrict investment maturities. As of September 30, 2013 the weighted average maturities of investments subject to interest rate risk are shown on the following page:

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

Investment Type	Fair Value/ Contract Value	Weighted Average Maturity (Years)
Stable Value Fund:		
Synthetic contracts*	\$ 619,585,781	3.79
SSgA STIF*	\$ 49,198,987	0.00
Common trust funds:		
SSgA Bond Market Index Fund	\$ 103,764,290	7.41
SSgA Cash Series Treasury Fund - Class G	\$ 24,707,782	0.12
Mutual funds:		
PIMCO Total Return Fund	\$ 43,827,235	5.2

* These investments are reported at contract value as disclosed in Note 1.

b. Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligation. The Plan has an investment policy that limits its investment choices. The investment choices offered to participants are defined by tiers as described in the preceding paragraphs. As of September 30, 2013 the credit quality ratings of debt securities subject to credit risk (other than U.S. government securities) were as follows:

Investment Type	Fair Value/ Contract Value	Rating	Rating Organization
Stable Value Fund:			
Synthetic contracts*	\$ 619,585,781	BBB to AAA	S&P
SSgA STIF*	\$ 49,198,987	A1/P1	Moody's
Common trust funds:			
SSgA Bond Market Index Fund	\$ 103,764,290	Below Baa to Aaa	Moody's
SSgA Cash Series Treasury Fund - Class G	\$ 24,707,782	A-1+/P-1	Moody's
Mutual funds:			
PIMCO Total Return Fund	\$ 43,827,235	Below B to AAA	S&P

* These investments are reported at contract value as disclosed in Note 1.

c. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign currency rates will adversely affect the fair value of an investment. The Plan does not have an investment policy addressing foreign currency risk. As of September 30, 2013

State of Michigan 457 Plan

Notes to Financial Statements (Continued)

the following investments (other than U.S. government securities) were subject to foreign currency risk:

<u>Investment Type</u>	<u>Foreign Currency</u>	<u>Fair Value</u>
Mutual funds:		
American Funds EuroPacific Growth Fund	Various	\$ 107,819,926
SSgA Emerging Markets Fund	Various	\$ 30,798,022
PIMCO Total Return Fund	Various	\$ 43,827,235
SSgA Global All Cap Equity ex-U.S. Index Fund	Various	\$ 44,581,036

Fully Benefit Responsive Synthetic Guaranteed Investment Contract (SGIC):

As part of the Stable Value Fund, the Plan uses SGIC investment derivatives that invest in a portfolio of underlying securities and a benefit response wrap contract. The wrap contract produces a floating rate of return that is adjusted periodically, but not below zero, to reflect the underlying investment portfolio and generally provides for participant withdrawals at contract value (principal plus accrued interest). Following are the fair values as of September 30, 2013:

	<u>Fair Value</u>
SGIC Components:	
Underlying investments	\$ 640,081,662
Wrap contract	*
Total	<u>\$ 640,081,662</u>

* The market value of the SGIC's underlying investments was higher than the SGIC's contract value; therefore, the wrap contract does not have a value.

GLOSSARY

Glossary of Acronyms and Terms

DTMB	Department of Technology, Management, and Budget.
Education Achievement Authority (EAA)	A Michigan Statewide school system for low-performing schools.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly, in all material respects, in conformity with the disclosed basis of accounting.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
GICs	guaranteed investment contracts.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial statements that causes the statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the

disclosed basis of accounting.

MFS

MFS Investment Management.

Moody's

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

PIMCO

Pacific Investment Management Company, LLC.

S&P

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

SGIC

synthetic guaranteed investment contract.

SSgA

State Street Global Advisors.

STIF

short-term investment fund.

unqualified opinion

An auditor's opinion in which the auditor states that the financial statements presenting the basic financial information of the audited entity are fairly presented in conformity with the disclosed basis of accounting.