



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT INCLUDING
REPORT ON INTERNAL CONTROL,
COMPLIANCE, AND OTHER MATTERS

MICHIGAN EDUCATION TRUST PLAN D

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

Fiscal Years Ended September 30, 2014 and September 30, 2013



Doug A. Ringler, C.P.A., C.I.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Report Summary

Financial Audit Including Report on Internal Control, Compliance, and Other Matters

Michigan Education Trust Plan D

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

Fiscal Years Ended September 30, 2014 and September 30, 2013

Report Number:
271-0283-15

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December 2014

The Michigan Education Trust (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. As of September 30, 2014, there have been 22 enrollment periods over 26 years for MET. Enrollments since 1995 are known as Plan D. 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.

Auditor's Report Issued

UNMODIFIED OPINION ☒

MODIFIED OPINION ☐

We issued an unmodified opinion on the Michigan Education Trust Plan D basic financial statements to reflect that they were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control, Compliance, and Other Matters

This report does not include any findings.

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, C.P.A., C.I.A.
Auditor General

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Doug A. Ringler, C.P.A., C.I.A.
Auditor General

December 30, 2014

Mr. R. Kevin Clinton, 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. Clinton and Ms. Lott:

This is our report on the financial audit including the report on internal control, compliance, and other matters of the Michigan Education Trust (MET) Plan D, a discretely presented component unit of the State of Michigan, for the fiscal years ended September 30, 2014 and September 30, 2013.

This report contains our report summary, our independent auditor's report on the financial statements and other reporting required by *Government Auditing Standards*, the MET management's discussion and analysis, and the MET Plan D basic financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of abbreviations and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT



Doug A. Ringler, C.P.A., C.I.A.
Auditor General

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

Mr. R. Kevin Clinton, 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. Clinton and Ms. Lott:

Report on the Financial Statements

We have audited the statement of net position (deficit); the statement of revenues, expenses, and changes in net position (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, 2014 and September 30, 2013 and the related notes to the financial statements, which collectively comprise the Michigan Education Trust Plan D basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D as of September 30, 2014 and September 30, 2013 and the changes in financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed 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 and changes in financial position and, where applicable, cash flows of the State of Michigan or its component units, the Michigan Education Trust as a whole, or the Michigan Education Trust Plans B and C as of and for the fiscal years ended September 30, 2014 and September 30, 2013 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 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 15, 2014 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Education Trust's internal control over financial reporting and compliance.

Sincerely,



Doug Ringler
Auditor General
December 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014 and September 30, 2013. MET is an Internal Revenue Code Section 529 qualified tuition program and is a discretely presented component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

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

Generally accepted accounting principles applicable to governments require a statement of net position (deficit); a statement of revenues, expenses, and changes in net position (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 position (deficit) includes the assets, liabilities, and net position (deficit) at the end of the fiscal year. The statement of revenues, expenses, and changes in net position (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 of Directors 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 2,108 new contracts and \$29.8 million in prepaid tuition amounts related to new contracts during fiscal year 2013-14. In fiscal year 2012-13, MET received 2,096 new contracts and \$35.8 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 Position

As of September 30

(In Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 55,921	\$ 49,622	\$ 81,068
Noncurrent assets	860,280	805,623	698,345
Total assets	<u>\$916,201</u>	<u>\$ 855,246</u>	<u>\$ 779,413</u>
Current liabilities	\$ 81,565	\$ 98,141	\$ 92,216
Noncurrent liabilities	806,692	801,098	807,031
Total liabilities	<u>\$888,257</u>	<u>\$ 899,239</u>	<u>\$ 899,247</u>
Net position - Restricted	\$ 27,944	\$	\$
Net position (deficit) - Unrestricted	<u></u>	<u>(43,994)</u>	<u>\$ (119,834)</u>
Total net position (deficit)	<u>\$ 27,944</u>	<u>\$ (43,994)</u>	<u>\$ (119,834)</u>

Total net position increased by \$71.9 million in fiscal year 2013-14 and increased by \$75.8 million in fiscal year 2012-13. The net position increased during fiscal years 2013-14 and 2012-13 due to an increase in the fair market value of investments at year-end.

Total assets increased by \$61.0 million in fiscal year 2013-14 and increased by \$75.8 million in fiscal year 2012-13. These increases resulted from favorable investment performance.

Total liabilities decreased by \$11.0 million in fiscal year 2013-14 due to a decrease in the actuarially calculated tuition benefits payable. During fiscal year 2013-14, the MET Board of Directors decreased the year 4 assumed tuition increase from 7.10% to 4.50%, which resulted in a decrease to the long-term tuition benefits payable.

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

	2014	2013	2012
Operating revenues			
Interest and dividends income	\$ 22,110	\$ 17,812	\$ 15,037
Net increase (decrease) in the fair value of investments	64,132	70,963	96,004
Other miscellaneous income	1,737	1,252	110
Total operating revenues	<u>\$ 87,979</u>	<u>\$ 90,028</u>	<u>\$ 111,151</u>
Operating expenses			
Salaries and other administrative expenses	\$ 2,983	\$ 2,939	\$ 3,163
Net increase (decrease) in the present value of tuition benefits payable	13,059	11,249	12,105
Total operating expenses	<u>\$ 16,042</u>	<u>\$ 14,188</u>	<u>\$ 15,268</u>
Operating income (loss)	<u>\$ 71,938</u>	<u>\$ 75,840</u>	<u>\$ 95,883</u>
Increase (Decrease) in net position	\$ 71,938	\$ 75,840	\$ 95,883
Net position - Beginning of fiscal year	<u>(43,994)</u>	<u>(119,834)</u>	<u>(215,716)</u>
Net position - End of fiscal year	<u><u>\$ 27,944</u></u>	<u><u>\$ (43,994)</u></u>	<u><u>\$ (119,834)</u></u>

The **net position - end of fiscal year** increased by \$71.9 million in fiscal year 2013-14 and decreased by \$75.8 million in fiscal year 2012-13. The net position increased during fiscal year 2013-14 because of an increase in the fair market value of investments at year-end. The increase in fiscal year 2012-13 was primarily because of favorable investment performance and lower increases in tuition and fees than had been assumed by the MET Board of Directors.

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

	2014	2013	2012
Net cash provided (used) by:			
Operating activities	\$ 3,724	\$ 4,958	\$ 25,285
Investing activities	5,808	(37,997)	(24,850)
Net cash provided (used) - All activities	\$ 9,532	\$ (33,039)	\$ 435
Cash and cash equivalents - Beginning of fiscal year	29,492	62,532	62,096
Cash and cash equivalents - End of fiscal year	<u>\$ 39,024</u>	<u>\$ 29,492</u>	<u>\$ 62,532</u>

The **net cash used by investing activities** decreased by \$43.8 million in fiscal year 2013-14 because of a decrease in investments purchased and increased by \$13.1 million in fiscal year 2012-13 because of the increased amount of cash available for investment purposes.

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 103.2% funded and is expected to pay all contracted benefits. The MET Plan D actuary's cash flow report expects tuition payments to students activating their contracts to be:

Fiscal Years Ending	Expected Gross Tuition Payments	Expected Number of Contracts
2015 - 2017	\$236,166,885	7,867
2018 - 2020	\$249,100,957	6,370
2021 - 2023	\$260,038,520	5,176
2024 - 2026	\$244,261,062	3,391
After 2026	\$449,496,036	2,491

The enrollment period for 2014 was from December 10, 2013 through September 30, 2014. New enrollment contract prices are adjusted annually to reflect estimated 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 of Directors changed the long-term investment portfolio strategy to address the unfunded liability issue. The MET Plan D target portfolio for investment is 75% in equities (mutual funds) and 25% in fixed income securities (short-term investments, U.S. government securities, and corporate bonds).

It is expected that Michigan public universities will continue to adopt higher tuition rates in subsequent years as State-appropriated funds remain flat. The average yearly tuition increase over the last 20 years has been 6.4% for four-year universities and 4.2% for two-year community colleges, compared to the actuarial assumption of 7.10% for year 1 through year 3 and 4.50% for year 4 and beyond.

BASIC FINANCIAL STATEMENTS

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

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	\$ 39,023,951	\$ 29,492,252
Tuition contracts receivable (Note 4)	14,149,452	14,808,179
Interest and dividends receivable	1,618,927	1,662,703
Amounts due from contract purchaser	966,511	3,516,696
Amounts due from others	162,519	142,577
Total current assets	<u>\$ 55,921,361</u>	<u>\$ 49,622,407</u>
Noncurrent assets:		
Investments (Note 3)	811,719,659	753,396,015
Tuition contracts receivable (Note 4)	48,559,901	52,227,179
Total assets	<u>\$ 916,200,921</u>	<u>\$ 855,245,602</u>
DEFERRED OUTFLOW OF RESOURCES	<u>\$ 0</u>	<u>\$ 0</u>
LIABILITIES		
Current liabilities:		
Amounts due to MET Program (Plans B and C)	\$ 3,092,071	\$ 3,023,012
Undistributed charitable tuition (Note 7)	437,787	117,704
Tuition benefits payable (Note 5)	78,035,076	95,000,000
Total current liabilities	<u>\$ 81,564,934</u>	<u>\$ 98,140,716</u>
Noncurrent liabilities:		
Tuition benefits payable (Note 5)	806,692,067	801,098,490
Total liabilities	<u>\$ 888,257,001</u>	<u>\$ 899,239,206</u>
DEFERRED INFLOW OF RESOURCES	<u>\$ 0</u>	<u>\$ 0</u>
NET POSITION		
Net position - Restricted	\$ 27,943,920	\$
Net position (deficit) - Unrestricted		(43,993,604)
Total net position (deficit) (Note 2)	<u>\$ 27,943,920</u>	<u>\$ (43,993,604)</u>

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

MICHIGAN EDUCATION TRUST PLAN D
Statement of Revenues, Expenses, and Changes in Net Position (Deficit)
Fiscal Years Ended September 30

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Interest and dividends income	\$ 22,110,380	\$ 17,812,247
Net increase (decrease) in the fair value of investments	64,131,812	70,963,413
Other miscellaneous income	1,737,200	1,252,474
Total operating revenues	<u>\$ 87,979,392</u>	<u>\$ 90,028,134</u>
OPERATING EXPENSES		
Salaries and other administrative expenses	\$ 2,982,923	\$ 2,938,809
Net increase (decrease) in the present value of tuition benefits payable	13,058,945	11,249,131
Total operating expenses	<u>\$ 16,041,868</u>	<u>\$ 14,187,940</u>
Operating income (loss)	<u>\$ 71,937,524</u>	<u>\$ 75,840,194</u>
Increase (Decrease) in net position	\$ 71,937,524	\$ 75,840,194
Net position (deficit) - Beginning of fiscal year	<u>(43,993,604)</u>	<u>(119,833,798)</u>
Net position (deficit) - End of fiscal year (Note 2)	<u><u>\$ 27,943,920</u></u>	<u><u>\$ (43,993,604)</u></u>

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

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract receipts	\$ 54,647,201	\$ 55,765,880
Interest and dividends received	22,154,156	17,894,895
Benefits paid	(71,901,163)	(66,824,185)
Administrative and other expenses paid	(2,913,863)	(3,131,440)
Application and other fees collected	1,737,200	1,252,474
Net cash provided (used) by operating activities	<u>\$ 3,723,531</u>	<u>\$ 4,957,624</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	\$ (208,933,412)	\$ (237,353,909)
Proceeds from sale and maturities of investment securities	214,741,580	199,356,981
Net cash provided (used) by investing activities	<u>\$ 5,808,168</u>	<u>\$ (37,996,928)</u>
Net cash provided (used) - All activities	\$ 9,531,700	\$ (33,039,304)
Cash and cash equivalents - Beginning of fiscal year	29,492,252	62,531,556
Cash and cash equivalents - End of fiscal year	<u>\$ 39,023,952</u>	<u>\$ 29,492,252</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 71,937,524	\$ 75,840,194
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Unrealized and realized (gains) losses	(64,131,812)	(70,963,413)
Changes in assets and liabilities:		
Interest and dividends receivable	43,776	82,648
Tuition contracts receivable	4,326,005	2,427,357
Amounts due from contract purchasers	2,550,185	(2,278,682)
Amounts due from others	(19,942)	(142,577)
Amounts due to MET Program (Plans B and C)	69,059	(192,631)
Tuition benefits payable	(11,051,264)	184,728
Net cash provided (used) by operating activities	<u>\$ 3,723,531</u>	<u>\$ 4,957,624</u>

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, MET as a whole, or MET Plans B and C in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

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

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

As of September 30, 2014, there have been 22 enrollment periods over 26 years for MET. The 1988, 1989, and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, 2006, 2007 (two enrollment periods), 2008, 2009, 2010, 2011, 2012, 2013, and 2014 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.

MET follows the accounting rules promulgated by the Governmental Accounting Standards Board (GASB).

b. Assets, Liabilities, and Net Position

- (1) Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net position include deposits with financial institutions and short-term investments with original maturities 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 2013-14 and 2012-13, the discount rate applied to expected future cash flows to determine present value was 6.00% and 6.00%, 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 Position (Deficit): MET's net position represents 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 position is restricted because of the contractual obligations that MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected

and invested. Negative net position is unrestricted. The enabling legislation for MET is Act 316, P.A. 1986, as amended. Section 17 of the Act indicates that the assets of MET shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the Act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of the Act.

Note 3 Deposits and Investments

a. General Information

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

b. Deposits

(1) Custodial Credit Risk

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

At the end of fiscal year 2013-14, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was \$14,026,468. At the end of fiscal year 2012-13, the carrying amount of MET's deposits for Plan D and the amount reflected in the accounts of the banks was \$19,492,349. The September 30, 2014 and September 30, 2013 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, 2014 and September 30, 2013, MET had no foreign deposits.

c. Investments

(1) Interest Rate Risk

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

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

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	\$ 25.0	\$ 25.0	\$	\$	\$
U.S. agencies - backed	36.4		13.9	19.9	2.6
U.S. agencies - sponsored	5.3				5.3
Corporate bonds and notes	185.1	12.1	91.3	81.6	
* Mutual funds	559.8				
* Alternate investments	25.1				
Total investments	\$ 836.7	\$ 37.1	\$ 105.2	\$ 101.5	\$ 7.9
Less investments reported as "cash equivalents" on statement of net position	(25.0)				
Total investments	\$ 811.7				

As Reported on the Statement of Net Position

Noncurrent restricted investments	\$ 811.7
Total investments	\$ 811.7

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

As of September 30, 2013, the fair value of investments for Plan D by investment type and in total (in millions) were as follows:

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	\$ 10.0	\$ 10.0	\$	\$	\$
U.S. agencies - backed	6.8		4.0		2.8
U.S. agencies - sponsored	6.4				6.4
Corporate bonds and notes	188.6	8.5	99.0	81.1	
* Mutual funds	551.6				
Total investments	\$ 763.4	\$ 18.5	\$ 103.0	\$ 81.1	\$ 9.2
Less investments reported as "cash equivalents" on statement of net position	(10.0)				
Total investments	\$ 753.4				

As Reported on the Statement of Net Position

Noncurrent restricted investments	\$ 753.4
Total investments	\$ 753.4

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

(2) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two national rating services: ratings of A-1 and A-2 from Standard & Poor's and ratings of P-1 and P-2 from Moody's Investors Service. MET's policy also limits investments in corporate bonds, 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, 2014, 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	\$ 5,316,166	Backed*	Backed*
Small Business Administration Participation	2,582,526	Backed*	Backed*
United States Treasury Note	33,795,336	Backed*	Backed*
Dodge & Cox (mutual fund)	66,076,319	Not Rated	Not Rated
The Vanguard Group, Inc. (mutual fund)	493,750,623	Not Rated	Not Rated
Crescent Direct Lending Fund, LP	25,117,088	Not Rated	Not Rated
American Honda Finance Corp.	8,244,617	A+	A1
Anthem Inc.	2,064,676	A-	Baa2
Apple Inc.	4,727,860	AA+	Aa1
AstraZeneca PLC	7,902,936	AA-	A2
AT&T Inc.	7,406,098	A-	A3
Avon Products, Inc.	3,696,215	BBB-	Baa3
Berkshire Hathaway Finance Corp.	5,082,420	AA	Aa2
Berkshire Hathaway Inc.	2,126,258	AA	Aa2
Bottling Group, LLC	5,595,000	A	A1
Campbell Soup Company	2,826,006	BBB+	A2
Cargill, Inc.	1,503,785	A	A2
Caterpillar Financial Services Corp.	5,620,570	A	A2
Coca-Cola Enterprises	4,058,972	BBB	A3
Diageo Investment Corp.	3,921,320	A-	A3
Dow Chemical Company	1,617,790	BBB	Baa2
Emerson Electric Company	3,366,591	A	A2
Entergy Louisiana, LLC	3,019,641	A-	A2
Ford Motor Credit Company, LLC	5,065,255	BBB-	Baa3
GATX Corp.	5,206,590	BBB	Baa2
General Electric Capital Corp.	4,063,052	AA+	A1
IBM Corp.	7,843,626	AA-	Aa3
John Deere Capital Corp.	5,590,835	A	A2
JPMorgan Chase & Co.	6,181,595	A	A3
Lab Corporation of America	3,014,127	BBB+	Baa2
Lockheed Martin Corp.	5,659,654	A-	Baa1
Medtronic Inc.	2,879,112	AA-	A2
Nordstrom	3,209,049	A-	Baa1
Pfizer Inc.	1,983,622	AA	A1
Pitney Bowes Inc.	496,476	BBB	Baa2
Rio Tinto Finance (USA) Limited	9,181,238	A-	A3
RBC Global Covered Bond Prog.	3,978,736	Not Rated	Aaa
Schlumberger Investment S.A.	5,078,937	AA-	Aa3
Target Corp.	3,613,067	A	A2
Teva Pharmaceutical Finance, LLC	11,208,739	A-	A3
Thermo Fisher Scientific Inc.	4,057,814	BBB	Baa3
Toyota Motor Credit Corp.	3,480,809	AA-	Aa3

Investment (Continued)	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
United Parcel Service Inc.	1,932,326	A+	Aa3
Verizon Communications Inc.	10,889,221	BBB+	Baa1
Volkswagen International Finance N.V.	2,132,546	A	A3
Walgreen Co.	5,554,420	BBB	Baa1
Total fair value	<u>\$ 811,719,659</u>		

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

As of September 30, 2013, 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	\$ 6,412,969	Backed*	Backed*
Small Business Administration Participation	2,751,911	Backed*	Backed*
United States Treasury Note	3,967,812	Backed*	Backed*
Dodge & Cox (mutual fund)	54,861,962	Not Rated	Not Rated
John Hancock Funds, LLC (mutual fund)	25,544,963	Not Rated	Not Rated
The Vanguard Group, Inc. (mutual fund)	471,238,077	Not Rated	Not Rated
AbbVie Inc.	4,676,050	A	Baa1
American Honda Finance Corp.	8,154,075	A+	A1
Anthem Inc.	2,008,284	A-	Baa2
Apple Inc.	4,525,905	AA+	Aa1
Avon Products, Inc.	3,757,526	BBB-	Baa2
BellSouth Corp.	5,580,145	A-	WR
Berkshire Hathaway Inc.	2,079,126	AA	Aa2
Bottling Group, LLC	5,688,190	A	A1
Campbell Soup Company	2,727,174	BBB+	A2
Cargill, Inc.	6,469,126	A	A2
Caterpillar Financial Services Corp.	10,743,885	A	A2
Coca-Cola Enterprises	4,088,660	BBB	A3
Costco Wholesale Corp.	5,000,575	A+	A1
Diageo Investment Corp.	3,848,076	A-	A3
Dow Chemical Company	5,771,340	BBB	Baa2
Emerson Electric Company	3,407,568	A	A2
Entergy Louisiana, LLC	2,896,671	A-	A3
GATX Corp.	5,219,405	BBB	Baa2
GATX Corp. 2008-2 Pass-Through Trust	1,408,104	BBB+	Baa1
General Electric Capital Corp.	4,032,514	AA+	A1
IBM Corp.	8,105,265	AA-	Aa3
John Deere Capital Corp.	5,719,810	A	A2
JPMorgan Chase & Co.	6,261,897	A	A2

Investment (Continued)	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Lockheed Martin Corp.	5,493,367	A-	Baa1
Medtronic Inc.	2,817,888	A+	A2
Nordstrom	3,135,369	A-	Baa1
Oracle Corp.	4,419,626	A+	A1
Pfizer Inc.	1,917,120	AA	A1
Pitney Bowes Inc.	3,306,321	BBB	Baa2
Rio Tinto Finance (USA) Limited	8,891,795	A-	A3
RBC Global Covered Bond Prog.	3,952,548	AAA	Aaa
Schlumberger Investment S.A.	4,954,213	A+	A1
Target Corp.	3,726,602	A+	A2
Teva Pharmaceutical Finance, LLC	11,033,505	A-	A3
Textron Financial Corp.	2,064,886	BBB-	Baa3
Thermo Fisher Scientific Inc.	3,932,274	BBB	Baa1
Toyota Motor Credit Corp.	3,386,279	AA-	Aa3
Verizon Communications Inc.	5,663,280	BBB+	Baa1
Volkswagen International Finance N.V.	2,119,618	A-	A3
Walgreen Co.	5,634,260	BBB	Baa1
Total fair value	<u>\$ 753,396,015</u>		

* 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. As of September 30, 2014 and September 30, 2013, 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, 2014 and September 30, 2013, MET had \$140,264,898 and \$134,272,531, respectively, of mutual fund investments subject to foreign currency risk. MET does not have an investment policy for 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:

	2014	2013
Tuition contracts receivable	\$62.7	\$67.0
Less current value of contracts receivable	14.1	14.8
Long-term tuition contracts receivable	<u>\$48.6</u>	<u>\$52.2</u>

Note 5 Tuition Benefits Payable and Net Position (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 MET 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:

	2014	2013
Net value of total assets less nontuition liabilities	\$ 912.7	\$ 852.2
Present value of total tuition benefits obligation	884.7	896.1
Net value of assets in excess of tuition benefits obligation	\$ 28.0	\$ (44.0)
Net value of assets as a percentage of total tuition benefits obligation	103.2%	95.1%

The surplus in net assets for the fiscal year ended September 30, 2014 is the direct result of the value of assets exceeding the future tuition benefits obligation. The deficit in net assets for the fiscal year ended September 30, 2013 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 6.00% as of September 30, 2014. This investment yield is consistent with the 6.00% yield applied as of September 30, 2013. 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 2013-14, the MET Board of Directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 7.10% for year 1 through year 3 and 4.50% for year 4 and beyond. For fiscal year 2012-13, the projected tuition increase was 7.10% for year 1 through year 4 and 4.50% for year 5 and beyond.

- (3) There was no tax effect from federal income tax.
- (4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

The key assumptions used in the actuarial valuations for Plan D:

	Fiscal Years				
	2013-14	2012-13	2011-12	2010-11	2009-10
Tuition increase:					
Years 1 through 3	7.10%				
Years 1 through 4		7.10%			
Years 1 through 5			7.10%	7.10%	6.50%
Year 4 and beyond	4.50%				
Year 5 and beyond		4.50%			
Year 6 and beyond			4.50%	7.10%	6.50%
Present value discount rate	6.00%	6.00%	6.00%	7.01%	7.40%

The following summarizes the tuition benefits payable (in millions) as of and for the fiscal years ended September 30, 2014 and September 30, 2013:

Balance as of September 30, 2012	\$ 896.0
Tuition benefit expense provision	66.9
Payments	(66.8)
Balance as of September 30, 2013	<u>\$ 896.1</u>
Tuition benefit expense provision	60.5
Payments	<u>(71.9)</u>
Balance as of September 30, 2014	<u><u>\$ 884.7</u></u>

The amounts due within one year for tuition benefits payable for the fiscal years ended September 30, 2014 and September 30, 2013 are \$78.0 million and \$95.0 million, 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 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 7 Undistributed Charitable Tuition

Since fiscal year 2011-12, MET has hosted numerous fundraisers throughout the year to help eligible foster care students attend college through the MET Charitable Tuition Program. The MET Board of Directors authorized the Program to disburse charitable donations received from individuals and organizations to those colleges and universities that have established foster care student programs. MET disburses the charitable tuition donations to those Michigan colleges and universities based on the number of foster care students being serviced on a pro rata basis to directly benefit the foster care students.

Note 8 Pension Plans

Plan Descriptions - MET participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as MET. MET employees work on Plan D as well as Plans B and C and are covered under these plans. The defined benefit and defined contribution pension plans are part of the Michigan State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The Michigan State

Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's Web site at <<http://www.michigan.gov/ors>>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111.

Funding Policy - The State funds pension and other postemployment benefits on a prefunded basis. For the defined benefit plan, MET was required to contribute 3.26% of payroll for the employer portion of defined benefit pension. Employees in the defined benefit plan were required to contribute 4.0% of their compensation for pension benefits. For the defined contribution plan, MET was required to contribute 4.0% of payroll with an additional match of up to 3.0%. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the IRS allowed maximum. MET was required to contribute 46.97% of payroll for the employer cost of other postemployment benefits. MET transferred \$18,804, \$29,497, and \$0.5 million of its payroll costs for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits in fiscal year 2013-14 and MET transferred \$30,914, \$27,928, and \$0.4 million of its payroll costs for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits in fiscal year 2012-13. The contribution requirements of plan members and MET are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

MET participates in the State of Michigan's postemployment benefits. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The State pays 80% of the cost of health insurance for retired employees who were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30% and 80% of the cost of health insurance dependent upon years of service. Employees hired on or after January 1, 2012 will not be

eligible for any retiree health insurance coverage but will receive a personal healthcare fund where they will contribute up to 2% of their compensation into a 401(k) or 457 account, earning a matching 2% employer contribution. Also, the employee will receive a credit into a health reimbursement account at termination of employment if he or she has at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



Doug A. Ringler, C.P.A., C.I.A.
Auditor General

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

Mr. R. Kevin Clinton, 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. Clinton and Ms. Lott:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2014 and September 30, 2013 and the related notes to the basic financial statements and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General
December 15, 2014

GLOSSARY

Glossary of Abbreviations and Terms

deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
IRS	Internal Revenue Service.
material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.

material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
MET	Michigan Education Trust.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

