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

Audited Financial Statements

Year Ended September 30, 2017
with Report of Independent Auditors

AHP
CPAs & ADVISORS
ANDREWS HOOPER PAVLIK PLC

Michigan Education Savings Program

Audited Financial Statements

Year Ended September 30, 2017

Contents

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Report of Independent Auditors

Mr. Nick Khouri, Trustee, Michigan Education Savings Program, Michigan Department of Treasury
Mr. Doug A. Ringler, CPA, CIA, Auditor General, State of Michigan
Lansing, 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, 2017, 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 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 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, 2017, and the change in fiduciary net position thereof 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 fairly the financial position of the State of Michigan in its entirety as of September 30, 2017, 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 on pages 3 through 5 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 4, 2017, 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 4, 2017

Michigan Education Savings Program

Management's Discussion and Analysis

September 30, 2017

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, 2017. MESP is a fiduciary fund of the State of Michigan and consists of two components, the Direct-Sold Plan and the MI 529 Advisor Plan. Readers should consider the information presented in this section in conjunction with the Program's financial statements and notes to financial statements.

TIAA-CREF Tuition Financing, Inc. (TFI) serves as the program manager for the Direct-Sold Plan and the MI 529 Advisor Plan. Effective September 11, 2017, the State Treasurer of Michigan selected Nuveen Securities LLC (Nuveen) and TFI to succeed Allianz Global Investors Distributors LLC (AGID) as the distributor and administrator, respectively, for the MI 529 Advisor Plan. On September 11, 2017, all of the MI 529 Advisor Plan's former investment portfolios were liquidated and units were purchased in new investment portfolios.

Financial Highlights

The Program received approximately $190.5 million in net contributions from account owners for the year ended September 30, 2017.

The Program earned approximately $493.2 million from investment operations and paid out approximately $7.6 million for operating expenses during the year ended September 30, 2017.

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 comprised 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.

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, 2017. 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, 2017 and 2016:

	2017	2016
Assets		
Investments	$ 5,606,913,372	$ 4,930,856,544
Cash	3,129	190,454
Receivables	7,562,731	6,583,555
Total assets	5,614,479,232	4,937,630,553
Liabilities – payables	7,935,802	7,137,678
Net position	$ 5,606,543,430	$ 4,930,492,875

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

Net position increased by 13.7 percent and 12.6 percent or $676,050,555 and $551,532,753 for the years ended September 30, 2017 and 2016, respectively. This increase is primarily due to participant contributions to the Direct-Sold Plan and the MI 529 Advisor Plan, as well as positive economic conditions in the marketplace during the year ended September 30, 2017.

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, including 27 age-based portfolios (9 age-based portfolios for each of 3 risk strategies – conservative, moderate, and aggressive) and 6 other investment portfolios. Investments in the MI 529 Advisor Plan include 28 portfolios, including 9 age-based portfolios and 19 other portfolios. Each portfolio invests in varying percentages of TIAA-CREF and other mutual funds, as well as the funding agreements issued by TIAA-CREF Life Insurance Company to the Program.

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, 2017 and 2016:

	2017	2016
Additions		
Subscriptions	$ 590,238,937	$ 516,953,817
Interest and dividends	117,589,761	100,780,893
Net change in fair value of investments	375,654,567	297,146,941
Total additions – net	1,083,483,265	914,881,651
Deductions		
Redemptions	399,774,581	356,719,969
Operating expenses	7,658,129	6,628,929
Total deductions	407,432,710	363,348,898
Change in net position	676,050,555	551,532,753
Net position – beginning of year	4,930,492,875	4,378,960,122
Net position – end of year	$ 5,606,543,430	$ 4,930,492,875

Total additions increased by $168.6 million, from $914.9 million to $1.0835 billion. This increase is due to market appreciation, as well as an increase in subscriptions as a result of an increase in the number of account holders and an increase in interest and dividends.

Total deductions increased $44.1 million, from $363.3 million to $407.4 million due to an increase in redemptions as a result of an increase in the number of account holders, as well as an increase in operating expenses.

Michigan Education Savings Program

Statement of Fiduciary Net Position

September 30, 2017

	The Direct-Sold Plan	MI 529 Advisor Plan	Total
Assets			
Cash	$ 1,313	$ 1,816	$ 3,129
Investments – at fair value (Note 4)	5,067,775,992	539,137,380	5,606,913,372
Dividends and interest receivable	3,453,703	560,344	4,014,047
Receivable for securities transactions	294,869	260,130	554,999
Receivable for Program units sold	2,240,181	753,504	2,993,685
Total assets	5,073,766,058	540,713,174	5,614,479,232
Liabilities			
Accrued Program manager fee	193,021	92,773	285,794
Accrued administrative fee	77,207	14,497	91,704
Payable for securities transactions	5,129,791	897,725	6,027,516
Payable for Program units redeemed	849,381	524,430	1,373,811
Other liabilities	-	156,977	156,977
Total liabilities	6,249,400	1,686,402	7,935,802
Net Position – Held in trust for participant education savings program	$ 5,067,516,658	$ 539,026,772	$ 5,606,543,430

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, 2017

	The Direct-Sold Plan	MI 529 Advisor Plan	Total
Additions			
Subscriptions	$ 504,629,138	$ 85,609,799	$ 590,238,937
Investment income:			
Interest and dividends	106,002,942	11,586,819	117,589,761
Net increase in fair value of investments	331,329,536	44,325,031	375,654,567
Total investment gain	437,332,478	55,911,850	493,244,328
Total additions	941,961,616	141,521,649	1,083,483,265
Deductions			
Redemptions	362,421,104	37,353,477	399,774,581
Program manager fee	2,221,051	2,367,353	4,588,404
Administrative fee	888,420	241,958	1,130,378
Other operating expenses	-	1,939,347	1,939,347
Total deductions	365,530,575	41,902,135	407,432,710
Change in net position	576,431,041	99,619,514	676,050,555
Net position – beginning of year	4,491,085,617	439,407,258	4,930,492,875
Net position – end of year	$ 5,067,516,658	$ 539,026,772	$ 5,606,543,430

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

1. Organization and Significant Accounting Policies

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 and the MI 529 Advisor Plan. 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. Investment portfolios 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. (TFI), a subsidiary of Teachers Insurance and Annuity Association of America (TIAA), serves as the program manager for the Direct-Sold Plan and the MI 529 Advisor Plan under the direction of the Treasurer pursuant to a contract that it has entered into with the State of Michigan. Prior to September 11, 2017 (the Transition Date), TFI, per the State's approval, had delegated the responsibilities of being the administrator and distributor of the MI 529 Advisor Plan to Allianz Global Investors Distributors, LLC (AGID). On the Transition Date, the Treasurer transferred the responsibilities of being the administrator and distributor of the MI 529 Advisor Plan from AGID to TFI and Nuveen Securities LLC (Nuveen), respectively. Nuveen is a subsidiary of TIAA and, effective September 11, 2017, provides underwriting and distribution services to the MI 529 Advisor Plan. TIAA-CREF Individual & Institutional Services, LLC, a wholly-owned direct subsidiary of TIAA, provides certain underwriting and distributing services to the Direct-Sold Plan.

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.

The assets in the Principal Plus Interest Option/Portfolio and certain other investment portfolios are allocated to funding agreements issued by TIAA-CREF Life Insurance Company (TIAA Life), an affiliate of TFI. The funding agreements guarantee to the Michigan Department of Treasury a minimum rate of interest and provide the opportunity for additional interest as declared periodically by TIAA Life.

1. Organization and Significant Accounting Policies (continued)

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 Life funding agreements within the Program, to which the Principal Plus Interest Option and certain other investment portfolios allocate assets, is stated at cost, which approximates fair value. The TIAA Life funding agreements have 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 portfolios is 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 portfolio are determined at the close of business of the New York Stock Exchange. The Unit Value for financial reporting purposes may differ from the Unit Value for processing transactions. The Unit Value for financial reporting purposes includes security and shareholder transactions through the date of the report. There are no distributions of net investment gains or net investment income to account owners or beneficiaries.

For the MI 529 Advisor Plan, an account may be opened by contacting any qualified broker or financial advisor licensed to market the Program. The units offered in the MI 529 Advisor Plan are: class A units and class C units. Each unit differs principally in its respective sales charges and account owner distribution expenses of the portfolio to which they belong, and have identical liquidation and other rights and the same terms and conditions, except for expenses specific to the units. Class A units are sold with an initial sales charge. Class C units are subject to a Contingent Deferred Sales Charge (CDSC) on withdrawals made in the first six months after contribution. The units of the Principal Plus Interest Portfolio are not subject to sales charges. Income, non-class specific expenses, and realized and unrealized gains and losses of each portfolio are allocated daily to each class of units based on relative net position in each class.

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.

1. Organization and 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

Dividend income and capital gain distributions from the underlying funds, if any, are recorded on the ex-dividend date. Capital gain distributions, if any, from underlying funds are a component of the net increase in the fair value of investments. Interest income is recorded as earned.

Income Taxes

The Program is exempt from federal income tax under Section 529 of the Internal Revenue Code of 1986 and does not expect to have any unrelated business income subject to tax. Accordingly, no provision for federal income taxes has been made.

2. Fair Value Measurements

The Program categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Program's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

2. Fair Value Measurements (continued)

The Program has the following recurring fair value measurements as of September 30, 2017:

- Investments in registered investment companies totaling $4,819,085,385 as of September 30, 2017 are valued at their net asset value on the valuation date based on quoted prices in active markets (Level 1 inputs).

The TIAA Life funding agreements in the Program valued at $787,827,987 as of September 30, 2017 are considered nonparticipating interest-earning investment contracts and are accounted for at cost.

3. Program Fees

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 portfolios (other than the Principal Plus Interest Option), TFI is paid an annual program management fee of 0.05% of the average daily net position of the Direct-Sold Plan invested in such portfolios.

For its services related to administering the Direct-Sold Plan, each investment portfolio (with the exception of the Principal Plus Interest Option) pays to the Michigan Department of Treasury an administrative fee at an annual rate of 0.02% of the average daily net position held by that portfolio.

MI 529 Advisor Plan

Program units (excluding units in the Principal Plus Interest Portfolio) pay a program management fee and a service fee to the program manager. For the period October 1, 2016 through September 11, 2017, AGID received a management fee at an annual rate of 0.50% and a service fee at an annual rate ranging from 0.08%-0.25% of the average daily net position of the corresponding investment portfolios. For the period September 11, 2017 through September 30, 2017, TFI received management fees and services fees at an annual rate of 0.32% and 0.25%, respectively, of the average daily net position of the corresponding investment portfolios.

3. Program Fees (continued)

For the period October 1, 2016 through September 11, 2017, class C units paid a distribution fee to AGID at an annual rate of either 0.25% or 0.50% of the average daily net position of the corresponding investment portfolios (excluding the PIMCO Short Asset Investment Portfolio). The Age-Based and Static Investment Portfolios were assessed a distribution fee of 0.50% and the Individual Investment Portfolios were assessed a distribution fee of 0.25%. For the period September 11, 2017 through September 30, 2017, class C units paid a distribution fee to Nuveen of either 0.40% or 0.75% of the average daily net position of the corresponding investment portfolios (excluding units in the Principal Plus Interest Portfolio). The multi-fund and individual fund portfolios are assessed a distribution fee of 0.40%. The age-based investment and target risk portfolios are assessed a distribution fee of 0.75%.

The Program distributor also receives the proceeds of the initial sales charge paid by the unit-holder upon the purchase of class A units and the CDSC paid by a unit-holder upon certain redemptions of class C units as described in detail in the current Program disclosure booklet. For the period from October 1, 2016 through September 11, 2017, AGID received $255,749 in initial sales charge and $9,520 in CDSC. For the period September 11, 2017 through September 30, 2017, Nuveen received $9,344 in initial sales charges and received no CDSC. All or a substantial portion of the sales charges received by Nuveen may be paid to the selling financial intermediary through which the account owners make their investments.

All units (excluding units in the Principal Plus Interest Portfolio) pay a state administrative fee to Michigan Department of Treasury at an annual rate of 0.05% of the average daily net position of the corresponding investment portfolio.

All units indirectly bear the expenses for the underlying funds of the corresponding investment Portfolios.

4. Investments

As of September 30, 2017, investments in the Direct-Sold Plan include 33 investment portfolios, including 27 age-based portfolios (9 age-based portfolios for each of 3 risk strategies – conservative, moderate, and aggressive) and 6 other investment portfolios. As of September 30, 2017, investments in the MI 529 Advisor Plan include 28 portfolios, including 9 age-based portfolios and 19 other portfolios. Each portfolio invests in varying percentages of TIAA-CREF and other mutual funds, as well as the funding agreements issued by TIAA-CREF Life Insurance Company to the Program.

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). As of September 30, 2017, the Program's bank balance was $3,129 with an insured amount of $3,129.

4. Investments (continued)

As of September 30, 2017 the Program's investments consisted of the following:

	Cost	Market Value
The Direct-Sold Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	$ 1,124,628,272	$ 1,128,398,706
Emerging Markets Equity Index Fund	104,253,709	125,718,181
Equity Index Fund	1,090,108,139	1,793,255,431
High-Yield Fund	164,063,193	166,957,026
Inflation-Linked Bond Fund	319,553,397	315,813,084
International Equity Index Fund	511,099,340	647,894,537
TIAA-CREF Life Insurance Company:		
Funding Agreements	718,316,698	718,316,698
Vanguard REIT Index Fund (Institutional Shares)	158,014,301	171,422,329
Subtotal	4,190,037,049	5,067,775,992
MI 529 Advisor Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Fund	76,267,331	75,622,622
Emerging Markets Debt Fund	6,431,698	6,312,613
Emerging Markets Equity Index Fund	12,421,557	12,366,775
High-Yield Fund	2,986,793	2,992,793
International Equity Index Fund	49,686,250	50,337,364
Large-Cap Value Fund	150,658	151,906
S&P 500 Index Fund	44,758,838	45,857,086
Small-Cap Equity Fund	24,458,272	26,059,634
Social Choice Equity Fund	6,068	6,109
Nuveen Funds (Class R6):		
Inflation Protected Securities Fund	21,639,105	21,338,349
Large Cap Core Fund	92,751,136	95,890,444
Real Asset Income Fund	14,551,709	14,504,760
Real Estate Securities Fund	14,576,937	14,301,006
Santa Barbara Dividend Growth Fund	22,232,868	22,674,018
Strategic Income Fund	41,788,783	41,557,310
Symphony Credit Opportunities Fund	2,989,076	2,997,824
Ariel Fund - Institutional Class	105,199	107,422
DFA Emerging Markets Core Equity Portfolio - Institutional Class	258,232	254,818
Harbor Capital Appreciation Fund - Retirement Class	214,792	215,637
Harding Loevner Global Equity Portfolio - Institutional Class	10,132,869	10,228,045
MetWest Total Return Bond Fund - P Share	12,596,742	12,485,650
Oakmark International Fund - Institutional Class	13,004,567	13,363,906
TIAA-CREF Life Insurance Company:		
Funding Agreements	69,511,289	69,511,289
Subtotal	533,520,769	539,137,380
Total	$ 4,723,557,818	$ 5,606,913,372

4. Investments (continued)

All transactions in the TIAA-CREF and Nuveen Funds, as well as the funding agreements, are related party transactions.

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

5. Investment Risks

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

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. An account owner has an investment in an investment portfolio and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that investment portfolio may be allocated. Because of this ownership structure, the custodial credit risk is mitigated.

Investment Policy

The Program does not have specific investment policies which address credit, interest rate, foreign currency, or custodial credit risk. The Program's portfolios are managed based on specific investment objectives and strategies which are disclosed in the current disclosure booklet for each respective component.

Credit Risk

The underlying mutual funds invested primarily in fixed-income securities are subject to credit risk. Credit risk refers to the ability of the issuer to make final payments of interest and principal. The underlying mutual funds do not carry a formal credit quality rating. The underlying Funding Agreements are guaranteed insurance products issued by TIAA Life. TIAA Life has a Standard & Poor's credit rating of AA+ as of September 30, 2017.

5. Investment Risks (continued)

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. As of September 30, 2017, the weighted average maturities for the underlying fixed-income mutual funds are as follows:

	Market Value	Weighted Average Maturity
The Direct-Sold Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Index Fund	$ 1,128,398,706	7.94 years
High-Yield Fund	166,957,026	6.19 years
Inflation-Linked Bond Fund	315,813,084	5.61 years
MI 529 Advisor Plan:		
TIAA-CREF Funds (Institutional Class):		
Bond Fund	75,622,622	8.12 years
Emerging Markets Debt Fund	6,312,613	11.34 years
High-Yield Fund	2,992,793	6.19 years
Nuveen Funds (Class R6):		
Inflation Protected Securities Fund	21,338,349	8.39 years
Real Asset Income Fund	14,504,760	N/A
Strategic Income Fund	41,557,310	7.55 years
Symphony Credit Opportunities Fund	2,997,824	N/A
MetWest Total Return Bond Fund - P Share	12,485,650	7.40 years

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 any direct investment in foreign securities. Certain investment portfolios allocate assets to underlying mutual funds that are exposed to foreign currency risk. As of September 30, 2017, the values of investments in underlying mutual funds that significantly invest in foreign dominated contracts are as follows:

	Market Value
The Direct-Sold Plan:	
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Equity Index Fund	$ 125,718,181
International Equity Index Fund	647,894,537
MI 529 Advisor Plan:	
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Debt Fund	6,312,613
Emerging Markets Equity Index Fund	12,366,775
International Equity Index Fund	50,337,364
Nuveen Real Asset Income Fund – Class R6	14,504,760
DFA Emerging Markets Core Equity Portfolio - Institutional Class	254,818
Harding Loevner Global Equity Portfolio - Institutional Class	10,228,045
Oakmark International Fund - Institutional Class	13,363,906

6. Guarantees and Indemnifications

Under the Program's organizational documents, each officer, employee or other agent of the Program (including AGID, TFI, and Nuveen) is indemnified against certain liabilities that may arise out of performance of their duties to the Program. Additionally, in the normal course of business, the Program enters into contracts that contain a variety of indemnification clauses. The Program's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Program that have not yet occurred. However, the Program has not had prior claims or losses pursuant to these contracts, and management expects the risk of loss to be remote.

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. Nick Khouri, Trustee, Michigan Education Savings Program, Michigan Department of Treasury
Mr. Doug A. Ringler, CPA, CIA, Auditor General, State of Michigan
Lansing, 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, 2017, 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 4, 2017.

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 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 Savings Program's financial statements are free from 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Andrews Hooper Pavlik PLC

Okemos, Michigan
December 4, 2017