Michigan Education Trust Plan D

Financial Report
with Supplemental Information
September 30, 2017

Contents

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Independent Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Education Trust Plan D

Report on the Financial Statements

We have audited the accompanying financial statements of the Michigan Education Trust Plan D, a discretely presented component unit of the State of Michigan, as of and for the years ended September 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise Michigan Education Trust Plan D's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Michigan Education Trust Plan D as of September 30, 2017 and 2016 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Education Trust Plan D

Other Matters

As described in Note 4 to the basic financial statements, the Michigan Education Trust Plan D holds investments valued at approximately $355.5 million (35.5 percent of assets) at September 30, 2017 and $147.1 million (15.7 percent of assets) at September 30, 2016, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by the fund managers of the limited partnerships. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the financial statements present only the Michigan Education Trust Plan D. Accordingly, these financial statements 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 & C as of and for the years ended September 30, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the trust's proportionate share of net pension liability, the schedule of the trust's contributions, and the notes to the required supplemental information, as listed in the table of contents, 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, which 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 supplemental 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 7, 2017 on our consideration of the Michigan Education Trust Plan D's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Michigan Education Trust Plan D's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 7, 2017

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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 Auditor's Report

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Education Trust Plan D

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 Trust Plan D, a discretely presented component unit 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 Trust Plan D's basic financial statements and have issued our report thereon dated December 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Michigan Education Trust Plan D'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Education Trust Plan D's internal control. Accordingly, we do not express an opinion on the effectiveness of the Michigan Education Trust Plan D'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 Michigan Education Trust Plan D'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 Trust Plan D'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.*

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Michigan Education Trust Plan D

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 Michigan Education Trust Plan D's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan Education Trust Plan D's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 7, 2017

Management's Discussion & Analysis (MD&A)

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, 2017 and September 30, 2016. 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; a statement of revenues, expenses, and changes in net position; 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 includes the assets, deferred outflows of resources related to pensions, liabilities, deferred inflows of resources related to pensions, and net position at the end of the fiscal year. The statement of revenues, expenses, and changes in net position 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 1,848 new contracts and $29 million in prepaid tuition amounts related to new contracts during fiscal year 2016-17. In fiscal year 2015-16, MET received 1,964 new contracts and $30 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)

	2017	2016	2015
Current assets	$ 103,375	$ 69,572	$ 98,336
Noncurrent assets	899,289	870,117	789,690
Total assets	$ 1,002,664	$ 939,689	$ 888,027
Deferred Outflow Related to Pensions	$ 68	$ 60	$ 472
Total assets and Deferred Outflows	$ 1,002,732	$ 939,749	$ 888,499
Current liabilities	$ 72,920	$ 74,449	$ 87,948
Noncurrent liabilities	793,210	806,414	795,189
Total liabilities	866,130	880,863	$ 883,138
Deferred Inflows Related to Pensions	(3)	(3)	183
Total Liabilities and Deferred Inflows	866,127	880,860	$ 883,320
Net position - Restricted	$ 136,605	$ 58,890	$ 5,178
Total net position	$ 136,605	$ 58,890	$ 5,178

Total net position increased by $77.7 million in fiscal year 2016-17 and increased by $53.7 million in fiscal year 2015-16.

Total assets increased by $63.0 million in fiscal year 2016-17 and increased by $51.7 million in fiscal year 2015-16. The increases resulted from favorable investment performance.

Condensed Financial Information

From the Statement of Revenues, Expenses, and Changes in Net Position

Fiscal Years Ended September 30

(In Thousands)

	2017	2016	2015
Operating revenues			
Interest and dividends income	$ 31,016	$ 28,127	$ 23,334
Net increase (decrease) in the fair value of investments	68,607	55,374	(24,472)
Other miscellaneous income	618	598	1,624
Total operating revenues	$ 100,241	$ 84,099	$ 487
Operating expenses			
Salaries and other administrative expenses	$ 3,314	$ 3,903	$ 2,418
Net increase (decrease) in the present value of tuition benefits payable	19,212	26,484	19,318
Total operating expenses	$ 22,526	$ 30,387	$ 21,735
Operating income (loss)	$ 77,715	$ 53,711	$ (21,248)
Increase (Decrease) in net position	$ 77,715	$ 53,711	$ (21,248)
Net position - Beginning of fiscal year	58,890	5,178	27,944
Cumulative effect of a change in accounting principle (Note 9)			(1,517)
Restated beginning net position	58,890	5,178	26,427
Net position - End of fiscal year	$ 136,605	$ 58,890	$ 5,178

The net position - end of fiscal year increased by $77.7 million in fiscal year 2016-17 and increased by $53.7 million in fiscal year 2015-16. The increase in both fiscal years resulted due to favorable investment returns and lower than expected tuition increases.

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

	2017	2016	2015
Net cash provided (used) by:			
Operating activities	$ (33,576)	$ (24,579)	$ (24,629)
Investing activities	65,537	(998)	65,731
Net cash provided (used) - All activities	$ 31,961	$ (25,577)	$ 41,102
Cash and cash equivalents - Beginning of fiscal year	54,549	80,126	39,024
Cash and cash equivalents - End of fiscal year	$ 86,510	$ 54,549	$ 80,126

The **net cash provided by investing activities** increased by $66.5 million in fiscal year 2016-17 because of the increased amount of cash available for investment purposes and decreased by $66.7 million in fiscal year 2015-16 because of an increase in investments purchased.

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 of September 30 2017, MET Plan D is 115.8% 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
2018 – 2020	$236,345	7,249
2021 – 2023	$263,681	6,429
2024 – 2026	$265,541	4,511
2027 - 2029	$222,147	2,932
After 2029	$291,178	2,434

The enrollment period for 2017 was from December 12, 2016 through September 30, 2017. 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 alternative investments) 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 22 years has been 5.8% for four-year universities and 4.4% for two-year community colleges, compared to the actuarial assumption of 7.10% for the first two years, 5.75% for year 3, 5.0% for year 4 and 4.5% for year 5 and beyond.

Financial information can be obtained on the MET website at www.SETwithMET.com or by mail at Michigan Education Trust, P.O. Box 30198, Lansing, Michigan 48909, phone 517-335-4767.

Statement of Net Position

September 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 86,509,781	$ 54,548,915
Receivables:		
Tuition contracts receivable - Current portion (Note 5)	10,253,966	11,634,991
Amounts due from contract purchaser	1,861,708	2,028,433
Amounts due from others	97,408	73,250
Amounts due from MET Program (Plans B & C)	403,088	-
Interest and dividends receivable	1,292,723	1,286,255
Amounts due from primary government	2,956,593	-
Total current assets	103,375,267	69,571,844
Noncurrent assets:		
Investments (Notes 3 and 4)	863,768,466	829,682,727
Tuition contracts receivable - Net of current portion (Note 5)	35,519,911	40,434,120
Total noncurrent assets	899,288,377	870,116,847
Total assets	1,002,663,644	939,688,691
Deferred Outflows of Resources - Related to pensions (Notes 9 and 10)	67,878	60,468
Liabilities		
Current liabilities:		
Amounts due to MET Program (Plans B & C)	-	3,620,340
Tuition benefits payable - Current portion (Note 6)	72,920,175	70,828,451
Total current liabilities	72,920,175	74,448,791
Noncurrent liabilities:		
Net pension liability (Notes 9 and 10)	1,685,545	1,721,115
Tuition benefits payable - Net of current portion (Note 6)	791,524,171	804,692,621
Total noncurrent liabilities	793,209,716	806,413,736
Total liabilities	866,129,891	880,862,527
Deferred Inflows of Resources - Related to pensions (Notes 9 and 10)	(2,983)	(2,983)
Net Position - Restricted for prepaid tuition contractual obligations	**$ 136,604,614**	**$ 58,889,615**

See notes to financial statements.

Michigan Education Trust Plan D

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenue		
Interest and dividends income	$ 31,015,871	$ 28,127,140
Net increase in the fair value of investments	68,607,297	55,373,915
Other miscellaneous income	617,503	597,503
Total operating revenue	100,240,671	84,098,558
Operating Expenses		
Salaries and other administrative expenses	3,313,992	3,903,297
Net increase in the present value of tuition benefits payable	19,211,680	26,484,123
Total operating expenses	22,525,672	30,387,420
Change in Net Position	77,714,999	53,711,138
Net Position - Beginning of year	58,889,615	5,178,477
Net Position - End of year	**$ 136,604,614**	**$ 58,889,615**

See notes to financial statements.

Statement of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Contract receipts	$ 41,547,523	$ 53,539,573
Benefits paid	(71,835,928)	(75,648,067)
Administrative and other expenses paid	(3,979,031)	(3,068,280)
Application and other fees collected	690,873	597,502
Net cash and cash equivalents used in operating activities	(33,576,563)	(24,579,272)
Cash Flows from Investing Activities		
Purchase of investment securities	(337,846,926)	(165,077,776)
Interest and dividends received	31,015,871	28,407,000
Proceeds from sale and maturities of investment securities	372,368,484	135,673,124
Net cash and cash equivalents provided by (used in) investing activities	65,537,429	(997,652)
Net Increase (Decrease) in Cash and Cash Equivalents	31,960,866	(25,576,924)
Cash and Cash Equivalents - Beginning of year	54,548,915	80,125,839
Cash and Cash Equivalents - End of year	**$ 86,509,781**	**$ 54,548,915**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 77,714,999	$ 53,711,138
Adjustments to reconcile operating income to net cash from operating activities:		
Unrealized and realized gains	(68,607,297)	(55,373,916)
Investment income	(31,015,871)	(28,407,000)
Changes in assets and liabilities:		
Amounts due to/from MET Programs (Plans B and C)	(4,023,428)	442,629
Amounts due from primary government	(2,956,593)	-
Amount due from others	(24,158)	170,012
Amount due from contract purchaser	166,725	1,594,029
Interest and dividends receivable	(6,468)	279,859
Tuition contracts receivable	6,295,234	5,495,598
Pension liability and related deferrals	(42,980)	392,044
Tuition benefit payable	(11,076,726)	(2,883,665)
Total adjustments	(111,291,562)	(78,290,410)
Net cash and cash equivalents used in operating activities	**$ (33,576,563)**	**$ (24,579,272)**

See notes to financial statements.

Note 1 - Nature of Business

Reporting Entity

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. MET is governed by a nine-member Board of Directors that consists of one ex-officio member (the State Treasurer, acting as chair) and eight 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 Michigan Education Trust 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 (the "Act"), 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, 2017, there have been 25 enrollment periods over 29 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, 2014, 2015, 2016, and 2017 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 - Significant Accounting Policies

Accounting and Reporting Principles

The Michigan Education Trust Plan D follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board (GASB).

Basis of Accounting

The Michigan Education Trust Plan D uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and balances 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.

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 4). Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Other investments not having an established market value are recorded at estimated fair value.

Tuition Contracts Receivable

The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. For the years ended September 30, 2017 and 2016, the discount rate applied to expected future cash flows to determine present value was 6.00 percent.

Liabilities

The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 6).

Net Position

MET's net position represents the investment appreciation and the investment revenue in excess of the actuarial present value of the future tuition benefits obligation and expenses (see Note 6). 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. Section 17 of Act 316, P.A. 1986, as amended, 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

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, MET's cash and investments are subject to several types of risk, which are examined in more detail below:

Deposits

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of the depository financial institution, MET will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. MET does not have a policy for custodial credit risk. As of September 30, 2017 and 2016, MET's deposits for Plan D and the amounts reflected in the accounts of the banks were $20,546,997 and $19,556,673, respectively. The September 30, 2017 and 2016 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. MET does not have an investment policy for custodial credit risk for deposits.

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk for Deposits

Foreign currency risk for deposits is the risk that a deposit denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. As of September 30, 2017 and 2016, MET had no foreign deposits.

Investments

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. MET does not have a policy to restrict interest rate risk for long-term investments.

At September 30, 2017, MET had the following investments and maturities:

	2017				
Primary Government	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
U.S. Treasury securities	$ 46,920,665	$ -	$ 7,019,688	$ 39,900,977	$ -
Commercial paper	65,970,122	65,970,122	-	-	-
U.S. agencies - Backed securities	3,387,188	-	-	-	3,387,188
U.S. agencies - Sponsored securities	3,555,754	-	-	-	3,555,754
Corporate bonds and notes	129,443,412	-	39,611,987	73,742,247	16,089,178
Mutual funds	324,928,921	-	-	-	-
Alternative investments	355,532,526	-	-	-	-
Total	$ 929,738,588	$ 65,970,122	$ 46,631,675	$ 113,643,224	$ 23,032,120
Less investments reported as "cash equivalents" on statement of net position	$ (65,970,122)				
Total investments	$ 863,768,466				

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

Note 3 - Deposits and Investments (Continued)

At September 30, 2016, MET had the following investments (approximated) and maturities:

	2016				
Primary Government	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
U.S. Treasury securities	$ 36,784,770	$ -	$ 10,210,550	$ 26,574,220	$ -
Commercial paper	34,995,979	34,995,979	-	-	-
U.S. agencies - Backed securities	4,031,094	-	-	-	4,031,094
U.S. agencies - Sponsored securities	4,217,833	-	-	-	4,217,833
Corporate bonds and notes	143,647,787	5,972,157	56,068,491	81,607,282	-
Mutual funds	493,857,938	-	-	-	-
Alternative investments	147,143,305	-	-	-	-
Total	$ 864,678,706	$ 40,968,136	$ 66,279,041	$ 108,181,502	$ 8,248,927
Less investments reported as "cash equivalents" on statement of net position	$ (34,995,979)				
Total investments	$ 829,682,727				

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. 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.

	2017			2016		
Investment	Fair Value	Standard & Poor's	Moody's Investors Service	Fair Value	Standard & Poor's	Moody's Investors Service
ABBOTT LABS	$ 3,063,717	BBB	Baa3	$ -		
AM AIRLIN 16-3 A	1,977,600	A+	A2	-		
AM AIRLN 17-2 A PT	3,045,000	Not Rated	A2	-		
AMERICAN TOWER COR	2,980,744	BBB-	Baa3	-		
AMGEN INC	1,510,831	A	Baa1	1,552,586	A	Baa1
ANTHEM INC	2,085,962	A	Baa2	2,142,728	A	Baa2
APPLE INC	4,990,512	AA+	Aa1	5,090,725	AA+	Aa1
ASTRAZENECA PLC	-			8,117,232	A-	A3
AT&T INC	2,524,341	BBB+	Baa1	2,570,270	BBB+	Baa1
AUTOZONE INC	3,027,898	BBB	Baa1	-		
BANK OF AMERICA CO	6,094,652	BBB+	Baa1	6,211,212	BBB	Baa3
BERKSHIRE HATHAWAY	2,117,087	AA	Aa2	2,189,934	AA	Aa2
CAPITAL ONE FINL	2,021,985	BBB	Baa1	-		
CATERPILLAR FINANCIAL SERVICES CORP	-			4,992,095	A	A2
CELGENE CORP	4,128,173	BBB+	Baa2	4,198,256	BBB+	Baa2

Note 3 - Deposits and Investments (Continued)

	2017			2016		
Investment	Fair Value	Standard & Poor's	Moody's Investors Service	Fair Value	Standard & Poor's	Moody's Investors Service
CITIGROUP INC (public)	$ 2,105,501	BBB	Baa3	$ 2,117,582	BBB	Baa3
CITIGROUP INC (foreign)	4,409,962	BBB+	Baa1	4,320,580	BBB+	Baa1
CRESCENT DIRECT LENDING FUND, LP	29,894,641	Not Rated	Not Rated	35,783,655	Not Rated	Not Rated
DODGE & COX	87,785,783	Backed*	Backed*	70,863,385	Backed*	Backed*
DOMAIN PREFERRED ONE, LLC	7,596,550	Not Rated	Not Rated	5,524,416	Not Rated	Not Rated
DR PEPPER SNAPPLE	3,051,945	BBB+	Baa1	-		
EMERSON ELECTRIC COMPANY	-			3,298,296	A	A2
FORD MOTOR CO	5,197,881	BBB	Baa2	5,035,575	A	A2
GENERAL ELEC CAP C	6,144,889	AA-	A1	6,020,796	AA+	A1
GILEAD SCIENCES IN	4,165,621	A	A3	4,236,908	A	A3
GNMA	140,634	Backed*	Backed*	-		
GNMA PO(677205	231,831	Backed*	Backed*	-		
G2 MA07(MA0774	2,068,213	Backed*	Backed*	-		
GNR 201(GNR 201	946,511	Backed*	Backed*	-		
GOLDMAN SACHS GROUP	6,151,746	BBB+	A3	6,135,084	BBB+	A3
GOVERNMENT NATIONAL MORTGAGE	-			4,031,093	Backed*	Backed*
JM IV LP	33,110,747	Not Rated	Not Rated	17,848,577	Not Rated	Not Rated
JOHN DEERE CAPITAL CORP	-			5,307,740	A	A2
JPMORGAN CHASE & C	5,101,920	A-	A3	3,074,373	A-	A3
LAB CORPORATION OF AMERICA	3,013,064	BBB	Baa2	3,050,349	BBB	Baa2
MORGAN STANLEY (public)	3,287,924	BBB-	Baa2	3,347,100	BBB-	Baa2
MORGAN STANLEY (foreign)	3,046,274	BBB+	A3	3,031,272	BBB+	A3
MSCBB 2016-MART A	2,971,307	AAA	Not Rated	-		
NAPIER PARK AIRCO	1,701,379	Not Rated	Not Rated	-		
NAPIER PARK AIRCRAFT LEASING VEHICLE I, LLC	4,814,090	Not Rated	Not Rated	4,941,244	Not Rated	Not Rated
NAPIER PARK STRAT	9,965,878	Not Rated	Not Rated	-		
NAPIER PARK ABS INCOME FUND LP	47,500,742	Not Rated	Not Rated	41,469,609	Not Rated	Not Rated
NORDSTROM INC	3,074,143	BBB+	Baa1	3,217,386	BBB+	Baa1
ORACLE CORP	4,971,690	AA-	A1	5,040,100	AA-	A1
PARAMETRIC DEFENSE	82,409,094	Not Rated	Not Rated	-		
PFIZER INC	2,058,614	AA	A1	2,130,274	AA	A1
PITNEY BOWES INC.	-			467,990	BBB	Baa3
PLOUTOS CAPITAL DC	24,413,787	Not Rated	Not Rated	-		
PRK 2017-280P A	2,000,619	Not Rated	Not Rated	-		
PRUDENTIAL HIGH YIELD	40,613,097	Not Rated	Ba	45,962,394	A	Ba
RIALTO DCTA	24,360,717	Not Rated	Not Rated	-		
RIO TINTO FINANCE (USA) LIMITED	-			5,223,555	A-	Baa1
SBAP 2012-20G 1	1,776,076	Backed*	Backed*	-		
SBAP 2013-20G 1	1,779,678	Backed*	Backed*	-		
SCHLUMBERGER INVES	2,586,416	AA-	A1	5,149,183	AA-	A1
SMALL BUSINESS ADMINISTRATION PARTICIPATION	-			4,217,832	Backed*	Backed*
ST JUDE MEDICAL, INC.	-			3,091,209	A-	Baa2
TAHQUAMENON LP-DCT	89,764,907	Not Rated	Not Rated	41,575,805	Not Rated	Not Rated

Note 3 - Deposits and Investments (Continued)

	2017			2016		
Investment	Fair Value	Standard & Poor's	Moody's Investors Service	Fair Value	Standard & Poor's	Moody's Investors Service
TEVA PHARM FIN IV	$ 3,626,682	BBB-	Baa3	$ 6,828,644	BBB	Baa2
THERMO FISHER SCIE	2,087,225	BBB	Baa2	4,139,326	BBB	Baa2
TYSON FOODS INC	3,155,834	BBB	Baa2	-		
US TREASURY N/B	46,920,664	Backed*	Backed*	36,784,770	Backed*	Backed*
THE VANGUARD GROUP, INC.	196,530,033	Not Rated	Not Rated	377,032,160	Not Rated	Not Rated
VERIZON COMM INC	6,260,481	BBB+	Baa1	10,797,784	BBB+	Baa1
VOLKSWAGEN INTL FI	2,092,251	BBB+	A3	2,131,242	BBB+	A3
WELLS FARGO CO	3,093,210	A	A2	3,055,080	A	A2
WHIRLPOOL CORP	6,219,713	BBB	Baa1	6,335,321	BBB	Baa1
Total	$ 863,768,466			$ 829,682,727		

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

Concentration of Credit Risk

MET places no limit on the amount it may invest in any one issuer. As of September 30, 2017, MET held the following investments that represented 5.00 percent or more of total investments:

	September 30, 2017
Dodge & Cox	$ 87,785,783
Napier Park ABS Income Fund LP	47,500,742
Parametric Defense	82,409,094
Tahquamenon LP-DCT	89,764,907
The Vanguard Group	196,530,033

None of these investments were rated by either Standard & Poor's or Moody's Investors Service at September 30, 2017.

As of September 30, 2016, MET held one investment that represented 5.00 percent or more of total investments: Prudential High Yield, in the amount of $45,962,394, which was rated "A" by Standard & Poor's and "Ba" by Moody's Investors Service.

Custodial Credit Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. As of September 30, 2017 and 2016, MET had no foreign investments.

Note 4 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about MET's assets measured at fair value on a recurring basis at September 30, 2017 and September 30, 2016 and the valuation techniques used by MET to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that MET has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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. MET's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following tables summarize the fair value measurements of investments as of September 30, 2017 and 2016.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance at September 30, 2017
Assets				
Debt securities:				
U.S. Treasury securities	$ 46,920,665	$ -	$ -	$ 46,920,665
U.S. agencies - Backed securities	-	3,387,188	-	3,387,188
Corporate bonds	-	129,443,412	-	129,443,412
Asset-backed securities	-	3,555,754	-	3,555,754
Total debt securities	46,920,665	136,386,354	-	183,307,019
Equity securities - Mutual funds	324,928,921	-	-	324,928,921
Investments measured at net asset value (NAV):				
Private equity funds	-	-	118,290,517	118,290,517
Real estate funds	-	-	31,957,261	31,957,261
Multi-strategy hedge funds	-	-	172,174,001	172,174,001
Event driven hedge fund	-	-	33,110,747	33,110,747
Total investments measured at net asset value (NAV)	-	-	355,532,526	355,532,526
Total assets	$ 371,849,586	$ 136,386,354	$ 355,532,526	$ 863,768,466

Note 4 - Fair Value Measurements (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance at September 30, 2016
Assets				
Debt securities:				
U.S. Treasury securities	$ 36,784,770	$ -	$ -	$ 36,784,770
U.S. agencies - Backed securities	-	4,031,094	-	4,031,094
Corporate bonds	-	143,647,787	-	143,647,787
Asset-backed securities	-	4,217,833	-	4,217,833
Total debt securities	36,784,770	151,896,714	-	188,681,484
Equity securities - Mutual funds	493,857,938	-	-	493,857,938
Investments measured at net asset value (NAV):				
Private equity funds	-	-	82,194,508	82,194,508
Real estate funds	-	-	5,524,415	5,524,415
Multi-strategy hedge funds	-	-	41,575,805	41,575,805
Event driven hedge fund	-	-	17,848,577	17,848,577
Total investments measured at net asset value (NAV)	-	-	147,143,305	147,143,305
Total assets	$ 530,642,708	$ 151,896,714	$ 147,143,305	$ 829,682,727

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

Additional disclosures for fair value measurements of investments in certain entities that calculate the net asset value per share are as follows:

Private Equity Funds

This type of investment includes investments in six partnerships and four partnerships as of September 30, 2017 and 2016, respectively, that invest in various credit strategies, real assets, and other investments. These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of five to eight years.

The total market value and unfunded commitments of these investments as of September 30, 2017 are approximately $118.3 million and $31.8 million, respectively. The total market value and unfunded commitments of these investments as of September 30, 2016 are approximately $82.2 million and $31.3 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from NAV per share of the plan’s ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using MET’s equity contributions, less any distributions or dividends received, adjusted for any gains or losses in the investment allocated to MET.

Real Estate

This type of investment includes investment in one partnership that invests primarily in multi-family preferred equity structure in the United States. This type of investment can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund are liquidated over a period of 10 to 12 years.

Note 4 - Fair Value Measurements (Continued)

This type of investment also includes an investment in one partnership that invested in a commercial real estate related debt structure in the U.S. This type of investment cannot be redeemed with the funds. Distributions from this fund will be received as the underlying investments are paid down or otherwise liquidated over time. It is expected that the underlying assets of the fund are paid down or otherwise liquidated over a period of two to five years.

The total market value and unfunded commitment of this investment as of September 30, 2017 are approximately $32.0 million and $12.5 million, respectively. The total market value and unfunded commitment of this investment as of September 30, 2016 are approximately $5.5 million and $14.7 million, respectively. However, it is probable that all of the investments in this type will be sold at an amount different from NAV per share of the plan's ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been determined using MET's equity contributions, less any distributions or dividends received, adjusted for any gains or losses in the investment allocated to MET.

Multi-strategy Hedge Funds

This type invests in two funds that pursue multiple strategies to diversify risks and reduce volatility. One fund is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers. This is an open-ended fund that invests in equities, credit-driven, global macro, relative value, interest rate-driven, commodities, managed-futures, and event-driven, with redemption restriction terms ranging from 0 to 96 months. The other fund seeks to provide favorable risk-adjusted performance relative to index funds. This fund employs an options-based strategy that utilizes a fully covered option strangle.

The first fund offers limited partnership "Class A" Interests as well as Strategic Interests. Generally, the limited partner may withdraw all or any portion of its Class A and Strategic Interests capital account at any time upon not less than 95 days' prior written notice to the fund. The General Partner will submit withdrawal requests with respect to the fund's investments. Payment of the withdrawal proceeds will be made promptly after the fund receives withdrawal proceeds from such investments.

The second fund offers nonmanaging membership interest. Nonmanaging members may, with five days of notice given to the managing member, withdraw all or any of its portion of its capital account as of the last day of the calendar month.

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds is generally determined using the reported net asset value per share of the Investee fund as a practical expedient for fair value.

The total market value of these investments as of September 30, 2017 and 2016 is approximately $172.2 million and $41.6 million, respectively. There were no remaining commitments associated with these funds as of September 30, 2017 or 2016. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

Event-driven Hedge Funds

This type includes one investment specializing in event-driven investing. It typically applies a fundamental value discipline to identify undervalued companies that have one or more specific catalysts to unlock value. It focuses on "active shareholder engagement" and invests both long and short and across the capital structure including equity and debt.

Note 4 - Fair Value Measurements (Continued)

These types of investments can never be redeemed with the funds, but distributions are received through the liquidation of the underlying assets of the fund. Distribution proceeds from the sale of partnership investments, dividends, or interest must be returned to the limited partners within 90 days following receipt by the partnership. Such distributable amounts shall increase the unfunded portion of the limited partner commitment and may be called again for contribution to the partnership by the General Partner.

It is expected that the underlying assets of the fund are liquidated over a period of three to six years. The total market value and unfunded commitments of these investments as of September 30, 2017 are approximately $33.1 million and $7.9 million, respectively. The total market value and unfunded commitments of these investments as of September 30, 2016 are approximately $17.8 million and $12.9 million, respectively. Market price observability is impacted by a number of factors, including the type of investment and characteristics specific to the investment.

Note 5 - 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 as of September 30:

	2017	2016
Long-term tuition contracts receivable	$ 35,519,911	$ 40,434,120
Current tuition contracts receivable	10,253,966	11,634,991
Total tuition contracts receivable	$ 45,773,877	$ 52,069,111

Note 6 - Tuition Benefits Payable and Net Position

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 approximate net value of total assets and deferred outflows of resources, less nontuition liabilities and deferred inflows of resources, the present value of total tuition benefits obligation, and the net position of Michigan Education Trust Plan D as of September 30:

	2017	2016
Net value of total assets and deferred outflows of resources, less nontuition liabilities and deferred inflows of resources	$ 1,001,048,960	$ 934,410,687
Present value of total tuition benefits obligation	(864,444,346)	(875,521,072)
Total net position	$ 136,604,614	$ 58,889,615

The value of assets as a percentage of total actuarial liabilities (present value of tuition payments, fees, and administrative expenses) (i.e., the funded ratio) was 115.8 percent and 106.7 percent at September 30, 2017 and 2016, respectively.

The surplus in net assets for the years ended September 30, 2017 and 2016 is the direct result of the value of assets exceeding the future tuition benefits obligation. Differences between future assumptions related to actual investment returns and actual tuition increases will affect the net assets or unfunded tuition liability.

Note 6 - Tuition Benefits Payable and Net Position (Continued)

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 percent as of September 30, 2017 and 2016. 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 the year ended September 30, 2017, 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 percent for year one, 5.75 percent for year two, 5.00 percent for year three, and 4.50 percent for year four and beyond.

For the year ended September 30, 2016, 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 percent for year one through two, 5.75 percent for year three, 5.00 percent for year four, and 4.50 percent for year five and beyond.

(3) There was no tax effect from federal income tax.

(4) MET will pay 110 percent of the MET weighted average tuition in benefits and refunds.

The key tuition increase assumptions used in the actuarial valuations for Plan D are as follows for the years ended September 30:

	2017	2016	2015	2014	2013
Year 1	7.10 %	- %	- %	- %	- %
Years 1 through 2	-	7.10	-	-	-
Years 1 through 3	-	-	7.10	7.10	-
Years 1 through 4	-	-	-	-	7.10
Year 2	5.75	-	-	-	-
Year 3	5.00	5.75	-	-	-
Year 4	-	5.00	-	-	-
Year 4 and beyond	4.50	-	4.50	4.50	-
Year 5 and beyond	-	4.50	-	-	4.50
Present value discount rate	6.00	6.00	6.00	6.00	6.00

The following summarizes the approximate tuition benefits payable as of and for the years ended September 30, 2017 and 2016:

	2017	2016
Balance - Beginning of year	$ 875,521,071	$ 878,404,736
Tuition benefit expense provision	60,759,203	72,764,402
Payments	(71,835,928)	(75,648,067)
Total benefits payable	$ 864,444,346	$ 875,521,071

The amounts due within one year for tuition benefits payable for the years ended September 30, 2017 and 2016 are $72,920,175 and $70,828,451, 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 7 - Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Technology, Management, and Budget. There were no settlements exceeding coverage provided through MET's risk management program during the years ended September 30, 2017, 2016, or 2015.

Note 8 - Undistributed Charitable Tuition

Since the year ended September 30, 2012, MET has hosted numerous fundraisers throughout the year to help eligible foster care students attend college through the MET Charitable Tuition Program. In 2015, the Michigan Legislature established the Fostering Futures Scholarship Trust Fund within Treasury. The distribution of scholarships was moved to the Student Scholarships and Grants office (SSG). SSG disburses the charitable tuition donations to colleges for students who submitted applications during the application period.

Note 9 - General Information on Employee Pension Plans

Plan Description

MET participates in the Michigan State Employees' Retirement System (SERS or the "System"), a statewide, cost-sharing, single-employer defined benefit public employee retirement system governed by the State of Michigan (the "State") that covers substantially all employees of MET. SERS was created under Public Act 240 of 1943 (as amended). Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members - four appointed by the governor which consist of two employee members and two retirant members, the insurance commissioner, attorney general, state treasurer, deputy legislative auditor general, and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees. The Office of Retirement Services (ORS) within the Department of Technology, Management, and Budget provides administrative oversight to the System.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust and issues a publicly available financial report that includes financial statements and required supplemental information. That report is available on the web at http://www.michigan.gov/ors, or by calling the Office of Retirement System (ORS) at (517) 322 - 5103 or (800) 381 - 5111.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan are established by state statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, nonduty disability, and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Note 9 - General Information on Employee Pension Plans (Continued)

Effective March 31, 1997, Public Act 487 of 1996 (the "Public Act") closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left state employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010 established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange, they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012 - On December 15, 2011, the governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

• Option 1: DB Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution began on April 1, 2012.

• Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State’s DC plan. The 4 percent contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.

• Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4 percent and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they receive a 4 percent employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3 percent of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are re-employed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are re-employed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are re-employed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count toward vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2 percent of their compensation to a 401(k) or 457 account, earning a matching 2 percent employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. 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.

Regular Retirement - The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5 percent of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member’s lifetime.

Note 9 - General Information on Employee Pension Plans (Continued)

Under PA 264 of 2011, the FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012 and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015 or later, then an annual average of overtime - for the six-year period ending on the FAC calculation date - will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5 percent times years of service will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation. A member may retire and receive a monthly benefit after attaining:

(1) Age 60 with 10 or more years of credited service; or

(2) Age 55 with 30 or more years of credited service; or

(3) Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5 percent for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

(1) Age 51 with 25 or more years in a covered position; or

(2) Age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position. Employees in covered positions are responsible for the custody and supervision of incarcerated prisoners.

Deferred Retirement - Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for state employees occupying unclassified positions in the executive and legislative branches and certain Department of Health and Human Services employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Nonduty Disability Benefit - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a state employee is eligible for a nonduty disability pension. The nonduty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit - A member who becomes totally and permanently disabled from performing duties as a state employee as a direct result of state employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60, the benefit is recomputed under service retirement.

Note 9 - General Information on Employee Pension Plans (Continued)

Survivor Benefit - Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of duty death benefits and redefines eligibility for deceased members' survivors. The new minimum duty-related death benefit has been increased to $6,000.

Pension Payment Options - When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100 percent, 75 percent, or 50 percent of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

Regular Pension - The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100 Percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75 Percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

50 Percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent or 75 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with regular, 100 percent, 75 percent, or 50 percent option. At age 65, the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of Social Security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide ORS with an estimate from the Social Security Administration Office. The actual amount received from Social Security may vary from the estimate.

Postretirement Adjustments - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning October 1, 1988, a 3 percent noncompounding increase, up to a maximum of $25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8 percent annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3 percent increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987 are not eligible for the supplemental payment.

Note 9 - General Information on Employee Pension Plans (Continued)

Contributions

Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4 percent of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2017, the component unit's contribution rate was 25.50 percent for the defined benefit employee wages and 22.24 percent of the defined contribution wages. For fiscal year 2016, the component unit's contribution rate was 26.05 percent of the defined benefit employee wages and 22.84 percent of the defined contribution employee wages. The Michigan Education Trust's contributions to SERS for the years ended September 30, 2017 and 2016 were $224,863 and $231,372, respectively.

Net Pension Liability

At September 30, 2017 and 2016, MET reported a liability of $1,685,545 and $1,721,115, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. MET's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, MET's proportion was 0.032 percent and 0.036 percent, respectively.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2017 and 2016, MET recognized pension (recovery) expense of ($42,980) and $223,951, respectively. At September 30, 2017 and 2016, MET reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 199	$ -	$ 4,793	$ -
Net difference between projected and actual investment earnings	37,409	-	14,980	-
Change in proportion and difference between actual contributions and proportionate share of contributions	5,857	(2,983)	15,803	(2,983)
Other	24,413	-	24,892	-
Total	$ 67,878	$ (2,983)	$ 60,468	$ (2,983)

Note 9 - General Information on Employee Pension Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2017	$ 28,918
2018	(4,535)
2019	42,956
2020	3,522
Total	$ 70,861

Actuarial Assumptions

The Michigan Education Trust Plan D net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation rate	3.50%	
Projected salary increase	3.50 - 12.50%	Including wage inflation at 3.50 percent
Investment rate of return	8.00%	
Cost-of-living pension adjustment	3.00%	Annual noncompounded with maximum annual increase of $300 for those eligible

Mortality rates were based on RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 projections scale BB. For retirees, 100 percent of the table rates was used. For active members, 50 percent of the table rates was used for males and females.

Significant actuarial assumptions were based on the April 2014 experience study covering the period from October 1, 2007 to September 30, 2012. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that plan member contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 9 - General Information on Employee Pension Plans (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.90 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.90
Real estate and infrastructure pools	10.00	4.30
Absolute return pools	15.50	6.00
Short-term investment pools	2.00	-
Total	100.00 %	

Rate of returns are net of administrative expenses and 2.10 percent inflation.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of MET, calculated using the discount rate of 8.00 percent, depending on the plan option. The following also reflects what MET's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	2017		
	1 Percent Decrease 7.00%	Current Discount Rate 8.00%	1 Percent Increase 9.00%
Net pension liability of MET	$ 2,137,984	$ 1,685,545	$ 1,257,037

Pension Plan Fiduciary Net Position

The SERS plan fiduciary net position has been determined using SERS' accrual basis of accounting. Benefit payment and refunds are recognized when due and payable in accordance with the terms of the System. Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting www.michigan.gov/ors.

Note 10 - Employee Benefits

Plan Description

The Michigan Education Trust Plan D 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. The defined benefit and defined contribution pension plans are part of the 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 website at 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 48909-7671.

Note 10 - Employee Benefits (Continued)

Funding Policy

The State funds pension and other postemployment benefits on a prefunded basis. For the defined benefit plan, Michigan Education Trust Plan D was required to contribute 25.50 percent of payroll for the employer portion of the defined benefit pension. Employees participating in the defined benefit plan were required to contribute 4 percent of their compensation for pension benefits. For the defined contribution plan, the Michigan Education Trust Plan D was required to contribute 22.24 percent of payroll with an additional match of up to 3 percent. Employees in the defined contribution plan are not required to contribute to the plan but may contribute up to the Internal Revenue Service allowed maximum. Employees participating in the defined compensation plan vest in employer contributions at 50 percent after two years of service, 75 percent after three years of service, and 100 percent after four years of service. Forfeited employer contributions are retained within the defined contribution plan and are used toward future employer required contributions. The Michigan Education Trust Plan D was required to contribute 20.63 percent of payroll for the employer cost of other postemployment benefits. The Michigan Education Trust Plan D transferred $136,963, $87,900, and $187,861 to the State for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits, respectively, in fiscal year 2017. The Michigan Education Trust Plan D transferred $142,393, $91,077, and $203,714 to the State for its employer contribution for the defined benefit plan, defined contribution plan, and other postemployment benefits, respectively, in fiscal year 2016. The contribution requirements of plan members and the Michigan Education Trust Plan D 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.

Postemployment Benefits

The Michigan Education Trust Plan D 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 Michigan Education Trust Plan D was required to contribute 21.05 percent and 20.63 percent of payroll for the employer cost of other postemployment benefits in the years ended September 30, 2017 and 2016, respectively. The State pays 80 percent of the cost of health insurance for retired employees that 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 percent and 80 percent of the cost of health insurance depending upon years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become a participant in the Personal Healthcare Fund where they will contribute up to 2 percent of their compensation into a 401(k) or 457 account, earning a matching 2 percent 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.

Required Supplemental Information

Required Supplemental Information
Schedule of the Michigan Education Trust's Proportionate Share of Net Pension Liability
State Employees' Retirement System

Last Three Fiscal Years

For the Plan Year Ended September 30

	2017	2016	2015
MET's proportion of the net pension liability	0.03147 %	0.03128 %	0.03022 %
MET's proportionate share of the net pension liability	$ 1,685,545	$ 1,721,115	$ 1,555,317
MET's covered employee payroll	$ 935,614	$ 896,058	$ 1,319,430
MET's proportionate share of the net pension liability as a percentage of its covered employee payroll	180.15 %	192.08 %	117.88 %
Plan fiduciary net position as a percentage of total pension liability	67.48 %	66.10 %	68.07 %

The amounts presented were determined as of the prior fiscal year as of the measurement date of September 30, 2016.

Required Supplemental Information
Schedule of the Michigan Education Trust's Contributions
State Employees' Retirement System

Last Three Fiscal Years

Year Ended September 30

	2017	2016	2015
Statutorily required contribution	$ 224,863	$ 216,757	$ 427,405
Contributions in relation to the statutorily required contribution	224,863	216,578	427,405
Contribution deficiency	**$ -**	**$ 179**	**$ -**
MET's covered employee payroll	$ 935,614	$ 896,058	$ 1,319,430
Contributions as a percentage of covered employee payroll	24.03 %	24.17 %	32.39 %

See notes to required supplemental information.

Pension Information

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution amounts are calculated as of September 30 each year, which is one day prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Salary increase	3.50 percent wage inflation
Investment rate of return	8.00 percent, net of pension plan investment and administrative expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For retirees, 100 percent of the table rates was used. For active members, 50 percent of the table rates was used for males and females.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The schedule of contributions is presented to show the responsibility of the employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of contributions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents in actuarial terms, the accrued liability less the market value of assets. The schedule of contributions is a comparison of the employer’s contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate.