
Michigan Education Trust Plan D

**Financial Report
with Supplemental Information
September 30, 2022**

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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 Audits of the Financial Statements

Opinion

We have audited the financial statements of Michigan Education Trust Plan D (MET), a discretely presented component unit of the State of Michigan, as of and for the years ended September 30, 2022 and 2021 and the related notes to the financial statements, which collectively comprise MET's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MET as of September 30, 2022 and 2021 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of MET and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As described in Note 1 to the financial statements, the financial statements present only 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 cash flows of the State of Michigan or its component units, Michigan Education Trust as a whole, or Michigan Education Trust Plans B and C as of and for the years ended September 30, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As explained in Note 4 to the financial statements, Michigan Education Trust Plan D holds investments valued at approximately \$389.1 million (44.7 percent of total investments) at September 30, 2022 and \$413.8 million (45.1 percent of total investments) at September 30, 2021, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MET's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 MET's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MET's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2023 on our consideration of 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 solely 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 effectiveness of MET's 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 Michigan Education Trust Plan D's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 17, 2023

Michigan Education Trust Plan D

Management's Discussion and Analysis

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plan D for the fiscal years ended September 30, 2022 and September 30, 2021. 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.

Michigan Education Trust Plan D

Management's Discussion and Analysis

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 1,075 new contracts and \$17.0 million in prepaid tuition amounts related to new contracts during fiscal year 2021-22. In fiscal year 2020-21, MET received 1,084 new contracts and \$16.9 million in prepaid tuition amounts related to new contracts.

Comparison of Current Year and Prior Year Results

Condensed Financial Information From the Statement of Net Position

As of September 30

(In Thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 78,035	\$ 148,389	\$ 64,782
Noncurrent assets	887,443	937,579	929,251
Total assets	<u>\$ 965,478</u>	<u>\$ 1,085,968</u>	<u>\$ 994,032</u>
Deferred Outflow Related to Pensions, OPEB Life and Health insurance	<u>\$ 1,108</u>	<u>\$ 1,408</u>	<u>\$ 1,438</u>
Total assets and Deferred Outflows of Resources	<u>\$ 966,586</u>	<u>\$ 1,087,376</u>	<u>\$ 995,470</u>
Current liabilities	\$ 63,587	\$ 63,101	\$ 62,764
Noncurrent liabilities	627,246	645,961	670,727
Total liabilities	<u>\$ 690,833</u>	<u>\$ 709,062</u>	<u>\$ 733,492</u>
Deferred Inflows Related to Pensions' OPEB Life and Health insurance	<u>\$ 2,287</u>	<u>\$ 1,450</u>	<u>\$ 741</u>
Total Liabilities and Deferred Inflows	<u>693,120</u>	<u>710,512</u>	<u>734,233</u>
Total net position - Restricted	<u>\$ 273,466</u>	<u>\$ 376,864</u>	<u>\$ 261,237</u>

Michigan Education Trust Plan D

Management's Discussion and Analysis

Total net position decreased by \$103.4 million in fiscal year 2021-22 and increased by \$115.6 million in fiscal year 2020-21.

Total assets decreased by \$120.5 million in fiscal year 2021-22 and increased by \$91.9 million in fiscal year 2020-21. The change in assets resulted from changing investment performance.

Total liabilities decreased by \$18.2 million in fiscal year 2021-22 and decreased by \$24.4 million in fiscal year 2020-21. The change in liabilities is due to a greater number of existing contracts closing versus new contracts being opened.

Condensed Financial Information

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

Fiscal Years Ended September 30

(In Thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues			
Interest and dividends income	\$ 24,633	\$ 25,270	\$ 29,148
Net increase (decrease) in the fair value of investments	(92,734)	117,498	11,073
Other miscellaneous income	4,265	1,543	434
Total operating revenues	<u>\$ (63,836)</u>	<u>\$ 144,311</u>	<u>\$ 40,655</u>
Operating expenses			
Salaries and other administrative expenses	\$ 6,647	\$ 3,443	\$ 4,208
Net increase (decrease) in the present value of tuition benefits payable	32,915	25,241	(3,405)
Total operating expenses	<u>\$ 39,562</u>	<u>\$ 28,684</u>	<u>\$ 803</u>
Change in Net Position	\$ (103,398)	\$ 115,627	\$ 39,852
Net position - Beginning of year	<u>376,864</u>	<u>261,237</u>	<u>221,385</u>
Net position - End of year	<u>\$ 273,466</u>	<u>\$ 376,864</u>	<u>\$ 261,237</u>

Management's Discussion and Analysis

The **net position - end of fiscal year** decreased by \$103.4 million in fiscal year 2021-22 due to decrease in investment returns related to prior years. Increased by \$115.6 million in fiscal year 2020-21 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)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net cash provided (used) by:			
Operating activities	\$ (43,962)	\$ (50,468)	\$ (52,821)
Investing activities	(19,401)	130,222	32,446
Net cash provided (used) - All activities	\$ (63,363)	\$ 79,754	\$ (20,375)
Cash and cash equivalents - Beginning of fiscal year	<u>131,451</u>	<u>51,697</u>	<u>72,072</u>
Cash and cash equivalents - End of fiscal year	<u>\$ 68,089</u>	<u>\$ 131,451</u>	<u>\$ 51,697</u>

The **net cash provided by operating activities** increased by \$6.5 million in fiscal year 2021-22 and increased by \$2.3 million in fiscal year 2020-21. These changes were primarily the result of changes in tuition contract payments to colleges and refund designees.

The **net cash provided by investing activities** decreased by \$149.6 million in fiscal year 2021-22 because of a decrease in investment returns including the purchase and sale of investments and increased by \$97.8 million in fiscal year 2020-21 because of an increase in investment returns including the sale of investments.

Overall, **cash and cash equivalents at the end of the year** decreased by \$63.4 million in fiscal year 2021-22 and increased by \$79.8 million in fiscal year 2020-21.

Michigan Education Trust Plan D

Management's Discussion and Analysis

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, 2022, MET Plan D is 139.8% 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:

<u>Fiscal Years Ending</u>	<u>Expected Gross Tuition Payments</u>	<u>Expected Number of Contracts</u>
2023-2025	\$201,418,060	5,680
2026-2028	\$206,610,762	4,398
2029-2031	\$187,030,671	2,978
2032-2034	\$151,853,588	2,199
2035-2037	\$118,802,850	1,330
2038-2040	\$87,324,568	584
After 2040	\$100,818,398	N/A

The enrollment period for 2022 was from December 1, 2021 through September 30, 2022. 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).

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.

Michigan Education Trust Plan D

Statement of Net Position

September 30, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 68,088,616	\$ 131,451,220
Receivables:		
Tuition contracts receivable - Current portion (Note 5)	5,057,638	5,795,631
Amounts due from contract purchaser	307,651	1,263,255
Amounts due from others	174,381	370,091
Amounts due from MET Programs (Plans B and C)	2,082,983	389,032
Interest and dividends receivable	1,447,651	1,845,734
Amounts due from State of Michigan	875,887	7,273,687
Total current assets	78,034,807	148,388,650
Noncurrent assets:		
Investments (Notes 3 and 4)	869,661,157	917,963,719
Amounts due from State of Michigan - Net of current portion	673,545	-
Tuition contracts receivable - Net of current portion (Note 5)	17,108,271	19,615,613
Total noncurrent assets	887,442,973	937,579,332
Total assets	965,477,780	1,085,967,982
Deferred Outflows of Resources		
Deferred outflows related to pensions (Note 8)	246,673	244,612
Deferred outflows related to OPEB - Life insurance (Note 9)	98,096	112,211
Deferred outflows related to OPEB - Health insurance (Note 9)	763,466	1,051,136
Total deferred outflows of resources	1,108,235	1,407,959
Liabilities		
Current liabilities:		
Tuition benefits payable - Current portion (Note 6)	63,420,648	63,100,683
Scholarship benefits payable - Current portion	166,455	-
Total current liabilities	63,587,103	63,100,683
Noncurrent liabilities:		
Other accrued liabilities	271,249	-
Scholarship benefits payable - Net of current portion	673,545	-
Net pension liability (Note 8)	1,277,644	2,437,046
Net OPEB liability - Life insurance (Note 9)	433,190	465,678
Net OPEB liability - Health insurance (Note 9)	1,216,491	2,007,664
Tuition benefits payable - Net of current portion (Note 6)	623,373,446	641,050,598
Total noncurrent liabilities	627,245,565	645,960,986
Total liabilities	690,832,668	709,061,669
Deferred Inflows of Resources		
Deferred inflows related to pensions (Note 8)	650,405	-
Deferred inflows related to OPEB - Life insurance (Note 9)	109,479	86,311
Deferred inflows related to OPEB - Health insurance (Note 9)	1,527,035	1,363,765
Total deferred inflows of resources	2,286,919	1,450,076
Net Position - Restricted for prepaid tuition contractual obligations	\$ 273,466,428	\$ 376,864,196

Michigan Education Trust Plan D

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenue		
Interest and dividends income	\$ 24,632,970	\$ 25,269,877
Net (decrease) increase in the fair value of investments	(92,734,092)	117,498,385
Other miscellaneous income	4,265,231	1,542,567
Total operating (loss) revenue	(63,835,891)	144,310,829
Operating Expenses		
Salaries and other administrative expenses	6,647,110	3,443,330
Net increase in the present value of tuition benefits payable	32,914,767	25,240,209
Total operating expenses	39,561,877	28,683,539
Change in Net Position	(103,397,768)	115,627,290
Net Position - Beginning of year	376,864,196	261,236,906
Net Position - End of year	<u><u>\$ 273,466,428</u></u>	<u><u>\$ 376,864,196</u></u>

Michigan Education Trust Plan D

Statement of Cash Flows

Years Ended September 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Contract receipts	\$ 37,252,272	\$ 28,587,807
Benefits paid	(77,332,519)	(76,662,159)
Administrative and other expenses paid	(5,807,111)	(3,886,237)
Application and other fees collected	1,925,231	1,492,588
Net cash and cash equivalents used in operating activities	(43,962,127)	(50,468,001)
Cash Flows from Investing Activities		
Purchase of investment securities	(444,605,807)	(677,769,299)
Interest and dividends received	25,031,053	24,364,269
Proceeds from sale and maturities of investment securities	400,174,277	783,627,347
Net cash and cash equivalents (used in) provided by investing activities	(19,400,477)	130,222,317
Net (Decrease) Increase in Cash and Cash Equivalents	(63,362,604)	79,754,316
Cash and Cash Equivalents - Beginning of year	131,451,220	51,696,904
Cash and Cash Equivalents - End of year	\$ 68,088,616	\$ 131,451,220
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (103,397,768)	\$ 115,627,290
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Unrealized and realized losses (gains)	92,734,092	(117,498,385)
Investment income	(25,031,053)	(24,364,269)
Changes in assets and liabilities:		
Amounts due (to) from MET Programs (Plans B and C)	(1,693,951)	5,229
Amounts due from State of Michigan	5,724,254	(3,769,383)
Amount due from others	195,710	(49,979)
Amount due from contract purchaser	955,605	(53,443)
Interest and dividends receivable	398,083	(905,608)
Tuition contracts receivable	3,245,335	4,232,298
Pension liability and related deferrals	(511,058)	(299,459)
OPEB liability and related deferrals - Life insurance	4,795	19,786
OPEB liability and related deferrals - Health insurance	(340,233)	(168,463)
Tuition benefit payable	(17,357,187)	(23,243,615)
Other accrued liabilities	271,249	-
Scholarship benefits payable	840,000	-
Total adjustments	59,435,641	(166,095,291)
Net cash and cash equivalents used in operating activities	\$ (43,962,127)	\$ (50,468,001)

September 30, 2022 and 2021

Note 1 - Nature of Business

Reporting Entity

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 (the "State") and is reported as such in the State of Michigan's Annual Comprehensive 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 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 that 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, 2022, there have been 30 enrollment periods over 34 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, 2017, 2018, 2019, 2020, 2021, and 2022 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, MI 48909.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

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 Governmental Accounting Standards Board (GASB).

Basis of Accounting

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.

September 30, 2022 and 2021

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 net asset value reported in the financial statements of the respective investment entity. 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, 2022 and 2021, the discount rate applied to expected future cash flows to determine present value was 5.50 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).

Pension and Other Postemployment Benefits Other Than Pension (OPEB)

For the purpose of measuring the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net position and additions to/deductions from fiduciary net position of the State Employees' Retirement System (SERS) or the postemployment life insurance benefits plan have been determined on the same basis as they are reported by SERS or the postemployment life insurance benefits plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 to which MET must adhere 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.

September 30, 2022 and 2021

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, 2022 and 2021, MET's deposits for Plan D and the amounts reflected in the accounts of the banks were \$31,131,988 and \$81,875,156, respectively. Of these amounts, \$250,000 was covered by Federal Deposit Insurance Corporation (FDIC) insurance, and MET's deposits as a whole (Plans B and C and Plan D) were further covered by \$5,000,000 of collateral help in trust in MET's name at both September 30, 2022 and 2021. MET believes that, due to the amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, MET evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution, and only those institutions with an acceptable estimated risk level are used as depositories.

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, 2022, MET had the following investments and maturities:

Primary Government	Fair Value	2022			
		Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Commercial paper	\$ 36,956,628	\$ 36,956,628	\$ -	\$ -	\$ -
Money market	41,249,859	41,249,859	-	-	-
U.S. Treasury securities	42,687,157	-	32,626,938	4,242,375	5,817,844
U.S. agencies - Backed securities	3,467,008	-	-	-	3,467,008
U.S. agencies - Sponsored securities	1,118,519	-	-	578,444	540,075
Corporate bonds and notes	138,166,420	-	33,105,021	45,772,517	59,288,882
Total investments subject to interest rate risk disclosure	\$ 263,645,591	\$ 78,206,487	\$ 65,731,959	\$ 50,593,336	\$ 69,113,809
Plus other investments not subject to interest rate risk disclosure:					
Mutual funds	253,880,046				
Alternative investments	389,092,148				
Total investments not subject to interest rate risk disclosure	642,972,194				
Less investments reported as cash equivalents on statement of net position	36,956,628				
Total investments	\$ 869,661,157				

September 30, 2022 and 2021

Note 3 - Deposits and Investments (Continued)

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

At September 30, 2021, MET had the following investments and maturities:

Primary Government	Fair Value	2021			
		Less Than One Year	1-5 Years	6-10 Years	More Than 10 Years
Commercial paper	\$ 49,576,064	\$ 49,576,064	\$ -	\$ -	\$ -
U.S. Treasury securities	49,446,227	-	20,922,781	20,741,383	7,782,063
U.S. agencies - Backed securities	5,935,808	-	-	-	5,935,808
U.S. agencies - Sponsored securities	1,689,775	-	-	-	1,689,775
Corporate bonds and notes	109,996,853	-	22,416,239	33,778,525	53,802,089
Total investments subject to interest rate risk	\$ 216,644,727	\$ 49,576,064	\$ 43,339,020	\$ 54,519,908	\$ 69,209,735
Plus investments not subject to interest rate risk:					
Mutual funds	337,077,004				
Alternative investments	413,818,052				
Total investments not subject to interest rate risk	750,895,056				
Less investments reported as cash equivalents on statement of net position	49,576,064				
Total investments	\$ 917,963,719				

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

September 30, 2022 and 2021

Note 3 - Deposits and Investments (Continued)**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 (S&P) and ratings of P-1 and P-2 from Moody's Investors Service (Moody's). MET's policy also limits investments in corporate bonds, at the time of purchase, to the top four ratings of the two rating services: ratings of AAA, AA, A, and BBB from Standard & Poor's and ratings of Aaa, Aa, A, and Baa from Moody's Investors Service. As of September 30, 2022, U.S. government securities, commercial paper, and corporate bond holdings by Moody's and Standard & Poor's rating agencies are as follows:

	Moody's	Fair Value	S&P	Fair Value
Corporate bonds				
	A1	\$ 17,956,505	A	\$ 6,237,724
	A2	19,999,504	A-	21,904,758
	A3	2,361,506	AA-	8,799,370
	Aa2	6,640,809	BB+	1,160,902
	Aaa	19,370,604	BBB	31,072,603
	Baa1	24,334,535	BBB-	8,021,247
	Baa2	13,915,590	BBB+	22,473,924
	Baa3	11,930,609	Not rated	38,495,892
	Not rated	21,656,758		-
Total corporate bonds		138,166,420		138,166,420
Commercial paper	P-1	11,980,050	A-1	11,980,050
Commercial paper	Not rated	24,976,578	Not rated	24,976,578
Money market	N/A	41,249,859	N/A	41,249,859
U.S. government	N/A	47,272,684	N/A	47,272,684
Total debt securities		\$ 263,645,591		\$ 263,645,591

As of September 30, 2021, U.S. government securities, corporate bond holdings, and commercial paper by Moody's and Standard & Poor's rating agencies are as follows:

	Moody's	Fair Value	S&P	Fair Value
Corporate bonds				
	A2	\$ 23,571,569	A	\$ 4,328,471
	Aaa	11,687,694	A-	12,698,407
	Baa1	22,618,224	AAA	3,003,828
	Baa2	10,841,912	BBB	26,568,695
	Baa3	9,785,418	BBB-	3,265,924
	Not rated	31,492,036	BBB+	21,340,570
		-	BB+	1,539,685
		-	Not rated	37,251,273
		-		-
Total corporate bonds		109,996,853		109,996,853
Commercial paper	P-1	39,966,633	A-1	39,966,633
Commercial paper	P-2	9,609,431	A-2	9,609,431
U.S. government	N/A	57,071,810	N/A	57,071,810
Total debt securities		\$ 216,644,727		\$ 216,644,727

September 30, 2022 and 2021

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

MET places no limit on the amount it may invest in any one issuer. As of September 30, 2022 and 2021, MET held the following investments that represented 5.00 percent or more of total investments:

	2022
Dodge & Cox	\$ 73,463,540
Tahquamenon LP-DCT	62,767,105
The Vanguard Group	152,353,900
	2021
Dodge & Cox	\$ 84,527,205
Tahquamenon LP-DCT	109,121,279
The Vanguard Group	219,866,783

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, 2022 and 2021, MET had no foreign investments.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities 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, 2022 and 2021 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 where 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.

September 30, 2022 and 2021

Note 4 - Fair Value Measurements (Continued)

The following tables summarize the fair value measurements of investments as of September 30, 2022 and 2021:

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance at September 30, 2022
Debt securities:				
U.S. Treasury securities	\$ 42,687,157	\$ -	\$ -	\$ 42,687,157
U.S. agencies - Sponsored securities	-	1,118,519	-	1,118,519
Corporate bonds and notes	-	138,166,420	-	138,166,420
U.S. agencies - Backed securities	-	3,467,008	-	3,467,008
Total debt securities	42,687,157	142,751,947	-	185,439,104
Equity securities - Mutual funds	253,880,046	-	-	253,880,046
Investments measured at net asset value (NAV):				
Private equity funds	-	-	148,693,070	148,693,070
Real estate funds	-	-	79,931,683	79,931,683
Multistrategy hedge funds	-	-	62,767,105	62,767,105
Event-driven hedge fund	-	-	59,522,233	59,522,233
Defensive equity funds	-	-	38,178,057	38,178,057
Total investments measured at net asset value	-	-	389,092,148	389,092,148
Total investments	\$ 296,567,203	\$ 142,751,947	\$ 389,092,148	\$ 828,411,298

September 30, 2022 and 2021

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Measured at NAV	Balance at September 30, 2021
Debt securities:				
U.S. Treasury securities	\$ 49,446,227	\$ -	\$ -	\$ 49,446,227
U.S. agencies - Sponsored securities	-	1,689,775	-	1,689,775
Corporate bonds and notes	-	109,996,853	-	109,996,853
U.S. agencies - Backed securities	-	5,935,808	-	5,935,808
Total debt securities	49,446,227	117,622,436	-	167,068,663
Equity securities - Mutual funds	337,077,004	-	-	337,077,004
Investments measured at net asset value:				
Private equity funds	-	-	146,495,802	146,495,802
Real estate funds	-	-	62,270,897	62,270,897
Multistrategy hedge funds	-	-	109,121,279	109,121,279
Event-driven hedge fund	-	-	55,791,587	55,791,587
Defensive equity funds	-	-	40,138,487	40,138,487
Total investments measured at net asset value	-	-	413,818,052	413,818,052
Total investments	\$ 386,523,231	\$ 117,622,436	\$ 413,818,052	\$ 917,963,719

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

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

Private Equity Funds

This type of investment includes investments in 17 partnerships and 16 partnerships as of September 30, 2022 and 2021, 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, 2022 are approximately \$148.7 million and \$120.3 million, respectively. The total market value and unfunded commitments of these investments as of September 30, 2021 are approximately \$146.5 million and \$103.5 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.

September 30, 2022 and 2021

Note 4 - Fair Value Measurements (Continued)

Real Estate

This type of investment includes investments in eight partnerships and seven partnerships as of September 30, 2022 and 2021, respectively, that invest primarily in multifamily 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.

The total market value and unfunded commitment of this investment as of September 30, 2022 are approximately \$79.9 million and \$24.9 million, respectively. The total market value and unfunded commitment of this investment as of September 30, 2021 are approximately \$62.3 million and \$30.0 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.

Multistrategy Hedge Funds

This type of investment includes investments in one fund and two funds as of September 30, 2022 and 2021, respectively, that pursue multiple strategies to diversify risks and reduce volatility. The fund is organized for the primary purpose of developing and actively managing an investment portfolio of nontraditional 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.

One 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 no 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 fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds (the "investee 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, 2022 and 2021 is approximately \$62.8 million and \$109.1 million, respectively. There are no unfunded commitments associated with these funds as of September 30, 2022 and 2021. 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 two investments at September 30, 2022 and 2021 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.

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.

September 30, 2022 and 2021

Note 4 - Fair Value Measurements (Continued)

It is expected that the underlying assets of the fund will be liquidated over a period of three to six years. The total market value and unfunded commitments of these investments as of September 30, 2022 are approximately \$59.5 million and \$300,413, respectively. The total market value and unfunded commitments of these investments as of September 30, 2021 are approximately \$55.8 million and \$8.0 million, respectively. Market price observability is impacted by a number of factors, including the type of investment and characteristics specific to the investment.

Defensive Equity Funds

This type includes an investment in a private defensive equity fund that invests in collateralized put and call options composed of 50 percent U.S. equities and 50 percent U.S. Treasury bills that is expected to produce the strongest relative performance when the S&P 500® index is experiencing modest or negative returns. Withdrawals in whole or in part of the investee funds are allowed on the last day of the month and require five business days' prior notice to the managing member. Payment of the withdrawal proceeds will be made promptly after the managing member receives withdrawal proceeds from such investments.

The fair value of this investment has been determined using NAV per share (or its equivalent) of the investee funds. The total market value and unfunded commitment of this investment as of September 30, 2022 are \$38.2 million and \$0, respectively. The fair value of this investment has been determined using NAV per share (or its equivalent) of the investee funds. The total market value and unfunded commitment of this investment as of September 30, 2021 are \$40.1 million and \$0, respectively.

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, 2022 and 2021:

	2022	2021
Long-term tuition contracts receivable	\$ 17,108,271	\$ 19,615,613
Current tuition contracts receivable	5,057,638	5,795,631
Total tuition contracts receivable	<u>\$ 22,165,909</u>	<u>\$ 25,411,244</u>

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:

	2022	2021
Net value of total assets and deferred outflows of resources - Less nontuition liabilities and deferred inflows of resources	\$ 960,260,522	\$ 1,081,015,477
Present value of total tuition benefits obligation	<u>(686,794,094)</u>	<u>(704,151,281)</u>
Total net position	<u>\$ 273,466,428</u>	<u>\$ 376,864,196</u>

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 139.8 percent and 153.5 percent at September 30, 2022 and 2021, respectively.

September 30, 2022 and 2021

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

The surplus in net assets for the years ended September 30, 2022 and 2021 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.

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 5.50 percent as of September 30, 2022 and 2021. 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 years ended September 30, 2022 and 2021, the MET board of directors considered the relationship of tuition increases to the Consumer Price Index in determining the tuition increase assumption of 4.50 percent for all future years.
- (3) There was no tax effect from federal income tax.
- (4) MET will pay 105 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:

	2022	2021
Year 1 and beyond	4.50 %	4.50 %
Present value discount rate	5.50	5.50

The following summarizes the approximate tuition benefits payable as of and for the years ended September 30, 2022 and 2021:

	2022	2021
Balance - Beginning of year	\$ 704,151,281	\$ 727,394,896
Tuition benefit expense provision	59,975,332	56,861,872
Payments	(77,332,519)	(80,105,487)
Total benefits payable	<u>\$ 686,794,094</u>	<u>\$ 704,151,281</u>

The amounts due within one year for tuition benefits payable for the years ended September 30, 2022 and 2021 are \$63,420,648 and \$63,100,683, 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, 2022, 2021, and 2020.

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans

Plan Description

The Michigan State Employees' Retirement System (the "System") is a single-employer, statewide, defined benefit public employee retirement plan governed by the State of Michigan and 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. Executive Order 2015-13, signed by the governor on October 27, 2015, established the State of Michigan Retirement Board. The Board consists of nine members - five appointed by the governor (which consist of two members of the State Employees' Retirement System, at least one of whom is a retiree; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retiree under the Military Retirement Provisions; and one member of the general public), the attorney general, the state treasurer, the legislative auditor general, and the state personnel director.

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 Services (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 (FAC) 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.

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.

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 on 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 on April 1, 2012. As DC plan participants, 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.

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

Deferred members of the DB plan (with 10 or more years of service) who are reemployed 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 reemployed 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 reemployed 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 participants 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.

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
- (2) Age 55 with 30 or more years of credited service
- (3) Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced by 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 the following:

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

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

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 Community Health employees subject to reduction in force layoffs 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.

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 redefined 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 is as 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.

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

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 options 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 the 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 on 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.

Contributions

Member 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.

Employer Contributions

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 2022, MET's contribution rate was 23.97 percent for the defined benefit employee wages and 19.05 percent for the defined contribution wages. Michigan Education Trust's contribution to SERS for the fiscal year ended September 30, 2022 was \$262,159.

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

For fiscal year 2021, MET's contribution rate was 23.90 percent for the defined benefit employee wages and 18.93 percent for the defined contribution employee wages. Michigan Education Trust's contribution to SERS for the fiscal year ended September 30, 2021 was \$226,131.

Net Pension Liability

At September 30, 2022, MET reported a liability of \$1,277,644 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 and rolled forward using generally accepted actuarial procedures. MET's proportion of the net pension liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2020 through September 30, 2021, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the pension liability for the year ended September 30, 2022 was 0.04 percent.

At September 30, 2021, MET reported a liability of \$2,437,046 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 and rolled forward using generally accepted actuarial procedures. MET's proportion of the net pension liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2019 through September 30, 2020, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the pension liability for the year ended September 30, 2021 was 0.04 percent.

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

For the years ended September 30, 2022 and 2021, MET recognized pension recovery of \$(232,507) and \$(53,061), respectively. At September 30, 2022 and 2021, MET reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ -	\$ 5,658	\$ -
Change in proportion and difference between actual contributions and proportionate share of contributions	-	650,405	12,823	-
MET's contributions to the plan subsequent to the measurement date	246,673	-	226,131	-
Total	\$ 246,673	\$ 650,405	\$ 244,612	\$ -

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

Amounts reported as deferred outflows of resources related to pensions resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2023	\$ (173,211)
2024	(143,379)
2025	(159,934)
2026	(173,881)
Total	<u>\$ (650,405)</u>

Actuarial Assumptions

Michigan Education Trust Plan D's net pension liability for the year ended September 30, 2022 was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020 and rolled forward using generally accepted actuarial procedures. Michigan Education Trust Plan D's net pension liability for the year ended September 30, 2021 was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019 and rolled forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions at the valuation date:

	September 30, 2020	September 30, 2019
Wage inflation rate	2.75 percent	2.75 percent
Projected salary increase	2.75 - 11.75 percent	2.75 - 11.75 percent
Investment rate of return	6.70 percent	6.70 percent
Cost of living pension adjustment	3 percent annual noncompounded with maximum annual increases of \$300 for those eligible	3 percent annual noncompounded with maximum annual increases of \$300 for those eligible
Mortality basis	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006
Notes	The actuarial assumptions were based upon the results of an experience study covering the period from September 30, 2012 through September 30, 2017.	The actuarial assumptions were based upon the results of an experience study covering the period from September 30, 2012 through September 30, 2017.

The actuarial assumptions used in the valuations at September 30, 2020 and 2019 were based upon the results of an experience study covering the period from October 1, 2012 through September 30, 2017.

Discount Rate

A discount rate of 6.7 percent was used to measure the total pension liability as of September 30, 2021 and 2020. This discount rate was based on the long-term expected rate of return on pension plan investments of 6.7 percent as of September 30, 2021 and 2020. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

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.

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, 2021 and 2020 are summarized in the following tables:

Asset Class	2021	
	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.40 %
Private equity pools	16.00	9.10
International equity pools	15.00	7.50
Fixed-income pools	10.50	(0.70)
Real estate and infrastructure pools	10.00	5.40
Absolute return pools	9.00	2.60
Real return and opportunistic pools	12.50	6.10
Short-term investment pools	2.00	(1.30)

Long-term rates of return are net of administrative expenses and 2.00 percent inflation.

Asset Class	2020	
	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.60 %
Private equity pools	16.00	9.30
International equity pools	15.00	7.40
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	4.90
Absolute return pools	9.00	15.50
Real return and opportunistic pools	12.50	6.60
Short-term investment pools	2.00	(0.10)

Long-term rates of return 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 MET's proportionate share of the net pension liability calculated using the discount rate, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2022		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
	(5.70%)	(6.70%)	(7.70%)
Net pension liability of MET	\$ 1,847,823	\$ 1,277,644	\$ 791,975

September 30, 2022 and 2021

Note 8 - General Information on Employee Pension Plans (Continued)

	2021		
	1 Percentage Point Decrease (5.70%)	Current Discount Rate (6.70%)	1 Percentage Point Increase (7.70%)
Net pension liability of MET	\$ 3,110,148	\$ 2,437,046	\$ 1,863,926

Pension Plan Fiduciary Net Position

The SERS plan fiduciary net position has been determined using SERS' accrual basis of accounting. Benefit payments 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 Annual Comprehensive Financial Report, which may be obtained by visiting www.michigan.gov/ors.

Defined Contribution Plan

MET participates in the State of Michigan's defined contribution plan system. MET is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent. The contribution requirements of plan members and MET are established and may be amended by the state Legislature. The state Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan. MET's contributions to the plan were \$265,984 and \$139,141 for the years ended September 30, 2022 and 2021, respectively, and are recorded in salaries and benefits expense.

Note 9 - Other Postemployment Benefit Plan

Defined Benefit OPEB Plan - Health Care

Plan Description

The Michigan State Employees' Retirement System is a single-employer, statewide, defined benefit public employee retirement plan governed by the State of Michigan and 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. Executive Order 2015-13, signed by the governor on October 27, 2016, established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the governor (which consist of two members of the State Employees' Retirement System, at least one of whom is a retiree; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retiree under the Military Retirement Provisions; and one member of the general public); the attorney general; the state treasurer; the legislative auditor general; and the state personnel director, who serves as an ex officio member. The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

Benefit provisions of the other postemployment benefit plan are established by state statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the premium subsidy benefit contribute 20 percent of the monthly premium amount for the health (including prescription coverage), dental, and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30 percent subsidy with 10 years of service, with an additional 3 percent subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80 percent. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011 and those hired on or after January 1, 2012 are not eligible for any subsidized health, prescription drug, dental, or vision coverage in retirement but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the State on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become participants in the Personal Healthcare Fund. This plan is closed to new hires.

Contributions

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 percent of payroll value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2022, MET's contribution rate was 17.26 percent of the defined benefit employee wages and 17.26 percent of the defined contribution employee wages. MET's contribution to SERS for the fiscal year ended September 30, 2022 was \$228,431. Active employees are not required to contribute to SERS OPEB.

For fiscal year 2021, MET's contribution rate was 23.09 percent of the defined benefit employee wages and 23.09 percent of the defined contribution employee wages. MET's contribution to SERS for the fiscal year ended September 30, 2021 was \$254,921. Active employees are not required to contribute to SERS OPEB.

Net OPEB Liability

At September 30, 2022, MET reported a liability of \$1,216,491 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 and rolled forward using generally accepted actuarial procedures. MET's proportion of the net OPEB liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2020 through September 30, 2021, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the health care OPEB liability for the year ended September 30, 2022 was 0.034 percent.

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

At September 30, 2021, MET reported a liability of \$2,007,664 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 and rolled forward using generally accepted actuarial procedures. MET's proportion of the net OPEB liability was based on MET's required pension contributions received by SERS during the measurement period from October 1, 2019 through September 30, 2020, relative to the total required employer contributions from all of SERS' participating employers. MET's proportionate share of the health care OPEB liability for the year ended September 30, 2021 was 0.036 percent.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended September 30, 2022 and 2021, MET recognized OPEB (recovery) expense of (\$87,297) and \$99,322, respectively. At September 30, 2022 and 2021, MET reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 993,866	\$ -	\$ 1,105,984
Changes in assumptions	353,650	60,636	506,749	-
Net difference between projected and actual earnings on OPEB plan investments	-	172,840	11,617	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	181,386	299,693	277,849	257,781
Employer contributions to the plan subsequent to the measurement date	228,430	-	254,921	-
Total	\$ 763,466	\$ 1,527,035	\$ 1,051,136	\$ 1,363,765

Amounts reported as deferred outflows of resources related to OPEB resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending September 30	Amount
2023	\$ (221,964)
2024	(230,609)
2025	(272,721)
2026	(223,280)
2027	(43,425)
Total	\$ (991,999)

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

Michigan Education Trust Plan D's net OPEB liability for the year ended September 30, 2022 was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 and rolled forward using generally accepted actuarial procedures. Michigan Education Trust Plan D's net OPEB liability for the year ended September 30, 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 and rolled forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions at the valuation date:

	September 30, 2020	September 30, 2019
Wage inflation rate	2.75 percent	2.75 percent
Investment rate of return	6.9 percent	6.9 percent
Projected salary increases	2.75 - 11.75 percent, including wage inflation at 2.75 percent	2.75 - 11.75 percent, including wage inflation at 2.75 percent
Health care cost trend rate	7.5 percent year 1 graded to 3.5 percent year 15; 3.0 percent year 120	7.5 percent year 1 graded to 3.5 percent year 15; 3.0 percent year 120
Mortality basis	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006

The actuarial assumptions as of September 30, 2020 and 2019 were based upon the results of an experience study covering the period from October 1, 2012 through September 30, 2017.

Discount Rate

A single discount rate of 6.9 percent was used to measure the total OPEB liability as of September 30, 2021 and 2020. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.9 percent as of September 30, 2021 and 2020. The projection of cash flows used to determine this single discount rate assumed that, in the future, plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member (retiree) rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021 and 2020 are summarized in the following tables:

Asset Class	2021	
	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	25.00 %	5.40 %
International equity	16.00	9.10
Private equity	15.00	7.50
Real estate and infrastructure	10.50	(0.70)
Fixed income	10.00	5.40
Absolute return	9.00	2.60
Real return and opportunistic pools	12.50	6.10
Short-term investment	2.00	(1.30)

Long-term rates of return are net of administrative expenses and 2.00 percent inflation.

Asset Class	2020	
	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	25.00 %	5.60 %
International equity	15.00	7.40
Private equity	16.00	9.30
Real estate and infrastructure	10.00	4.90
Fixed income	10.50	0.50
Absolute return	9.00	3.20
Real return and opportunistic pools	12.50	6.60
Short-term investment	2.00	(0.10)

Long-term rates of return are net of administrative expenses and 2.10 percent inflation.

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

The following presents MET's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2022		
	1 Percentage Point Decrease	Current Discount Rate	1 Percentage Point Increase
	(5.9%)	(6.9%)	(7.9%)
MET's proportionate share of the net OPEB liability	\$ 1,538,020	\$ 1,216,491	\$ 945,474

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

	2021		
	1 Percentage Point Decrease (5.9%)	Current Discount Rate (6.9%)	1 Percentage Point Increase (7.9%)
MET's proportionate share of the net OPEB liability	\$ 2,390,690	\$ 2,007,664	\$ 1,686,027

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents MET's proportionate share of the net OPEB liability calculated using the assumed trend rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current trend rate:

	2022		
	1 Percentage Point Decrease (6.50% to 2.0%)	Current Health Care Cost Trend Rate (7.50% to 3.0%)	1 Percentage Point Increase (8.50% to 4.0%)
MET's proportionate share of the net OPEB liability	\$ 930,545	\$ 1,216,491	\$ 1,545,802

	2021		
	1 Percentage Point Decrease (6.50% to 2.5%)	Current Health Care Cost Trend Rate (7.50% to 3.5%)	1 Percentage Point Increase (8.50% to 4.5%)
MET's proportionate share of the net OPEB liability	\$ 1,669,855	\$ 2,007,664	\$ 2,398,120

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the SERS Annual Comprehensive Financial Report, which may be obtained by visiting (www.michigan.gov/ors).

Postemployment Life Insurance Benefits

Plan Description

The State of Michigan provides postemployment life insurance benefits (the "Plan") to eligible individuals upon retirement from state employment. Members of the State Employees' Retirement System, the State Police Retirement System (SPRS), the Judges Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, statewide, defined benefit other postemployment benefit plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (the "Fund"), an internal service fund in the State of Michigan Annual Comprehensive Financial Report (SOMACFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to state employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified state service with an appointment of at least 720 hours duration but excludes employees with noncareer appointments and those working less than 40 percent of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Michigan Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County, Michigan employees who (a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and (b) whose employer subsequently became the Wayne County Clerk's Office.

Eligible retirees are provided with life insurance coverage equal to 25 percent of the active life insurance coverage (whose amount is rounded to the next higher \$100 provided the retiree retired after July 1, 1974), \$1,000 for spouse, and \$1,000 for each dependent under age 23.

The active life insurance amount is either (a) two times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$200,000 or (b) one times the employee's basic annual salary, the result rounded to the next higher \$1,000 if not already a multiple thereof, with a minimum of \$10,000 and a maximum of \$50,000.

Contributions

The State contributes 100 percent of the premiums for employee and retiree life insurance coverage. The premium rate for FY 2020 was \$0.28 for each \$1,000 of coverage. The employee contributes 100 percent of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Actuarial Valuations and Assumptions

MET's total OPEB liability for the year ended September 30, 2022 was measured as of September 30, 2021 and is based on an actuarial valuation performed as of September 30, 2021.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry age actuarial cost method with these characteristics: (a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement and (b) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The total OPEB liability was measured using the following actuarial assumptions:

Wage Inflation Rate

2.75 percent

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return (Discount Rate)

2.19 percent per year at September 30, 2021 and 2.41 percent per year at September 30, 2020

Mortality

The postretirement mortality tables used in this valuation were 110 percent of the Healthy Life and Disabled Life Mortality.

IBNR

A liability equal to 25 percent of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees

The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 1.75 percent for SERS retirees.

Spouse Benefits for Current Retirees

Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 2.0 percent for SERS retirees.

Discount Rate

A discount rate of 2.19 and 2.41 percent was used to measure the ending total OPEB liability for postemployment life insurance benefits as of September 30, 2021 and 2020, respectively. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the Plan has no assets.

Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2022, MET reported a liability of \$433,190 for its proportionate share of the State's postemployment life insurance benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2021 based on an actuarial valuation as of September 30, 2021. MET's proportion of the total OPEB liability was determined by dividing MET's actual contributions to the Plan during the measurement period from October 1, 2020 through September 30, 2021 by the percentage of OPEB actual contributions received from all applicable employers. MET's proportionate share of the life insurance OPEB liability for the year ended September 30, 2022 was 0.034 percent.

As of September 30, 2021, MET reported a liability of \$465,678 for its proportionate share of the State's postemployment life insurance benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2020 based on an actuarial valuation as of that date. MET's proportion of the total OPEB liability was determined by dividing MET's actual contributions to the Plan during the measurement period from October 1, 2019 through September 30, 2020 by the percentage of OPEB actual contributions received from all applicable employers. MET's proportionate share of the life insurance OPEB liability for the year ended September 30, 2021 was 0.035 percent.

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

The following presents MET's proportionate share of the total OPEB liability calculated using the discount rate, as well as what the proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	2022		
	1 Percentage Point Decrease (1.19%)	Current Discount Rate (2.19%)	1 Percentage Point Increase (3.19%)
MET's proportionate share of the net OPEB liability	\$ 522,271	\$ 433,190	\$ 364,881

	2021		
	1 Percentage Point Decrease (1.41%)	Current Discount Rate (2.41%)	1 Percentage Point Increase (3.41%)
MET's proportionate share of the net OPEB liability	\$ 557,057	\$ 465,678	\$ 394,879

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the years ended September 30, 2022 and 2021, MET recognized OPEB expense of \$17,107 and \$23,300, respectively. At September 30, 2022 and 2021, MET reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63	\$ 55,414	\$ 141	\$ 30,157
Changes of assumptions	53,475	10,722	52,586	19,469
MET's contributions subsequent to the measurement date	12,575	-	12,613	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	31,983	43,343	46,871	36,685
Total	\$ 98,096	\$ 109,479	\$ 112,211	\$ 86,311

Amounts reported as deferred outflows of resources related to OPEB resulting from MET's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending	Amount
2023	\$ (2,858)
2024	365
2025	(6,035)
2026	(8,990)
2027	(6,440)
Total	\$ (23,958)

September 30, 2022 and 2021

Note 9 - Other Postemployment Benefit Plan (Continued)

Defined Contribution OPEB Plan

Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage but will become participants in the Personal Healthcare Fund wherein 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 at termination of employment if they have 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

Michigan Education Trust Plan D

Required Supplemental Information Schedule of MET's Proportionate Share of Net Pension Liability State Employees' Retirement System

	Last Eight Fiscal Years							
	Plan Years Ended September 30							
	2022	2021	2020	2019	2018	2017	2016	2015
MET's proportion of the net pension liability	0.03609 %	0.04000 %	0.03915 %	0.03741 %	0.03675 %	0.03147 %	0.03128 %	0.03022 %
MET's proportionate share of the net pension liability	\$ 1,277,644	\$ 2,437,046	\$ 2,610,324	\$ 2,197,730	\$ 1,640,061	\$ 1,685,545	\$ 1,721,115	\$ 1,555,317
MET's covered payroll	\$ 1,138,047	\$ 1,049,389	\$ 1,171,708	\$ 1,055,453	\$ 935,614	\$ 896,058	\$ 1,319,430	-
MET's proportionate share of the net pension liability as a percentage of its covered payroll	112.27 %	232.23 %	248.75 %	208.23 %	155.39 %	180.15 %	192.08 %	117.88 %
Plan fiduciary net position as a percentage of total pension liability	78.08 %	64.07 %	64.71 %	67.22 %	69.45 %	67.48 %	66.10 %	68.07 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MET presents information for those years for which information is available.

Michigan Education Trust Plan D

Required Supplemental Information Schedule of MET's Pension Contributions State Employees' Retirement System

**Last Eight Fiscal Years
Years Ended September 30**

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 262,159	\$ 226,131	\$ 220,475	\$ 222,543	\$ 221,349	\$ 224,863	\$ 216,757	\$ 427,405
Contributions in relation to the statutorily required contribution	262,159	226,131	220,475	222,543	221,349	224,863	216,578	427,405
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179	\$ -
MET's Covered Payroll	\$ 1,302,822	\$ 1,138,047	\$ 1,049,389	\$ 1,171,708	\$ 1,055,453	\$ 935,614	\$ 896,058	\$ 1,319,430
Contributions as a Percentage of Covered Payroll	20.12 %	19.87 %	21.01 %	18.99 %	20.97 %	24.03 %	24.17 %	32.39 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MET presents information for those years for which information is available.

Michigan Education Trust Plan D

Note to Required Supplemental Information

September 30, 2022 and 2021

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. The September 30, 2019 valuation determined the contribution rate for the State of Michigan's fiscal year ended September 30, 2022
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Methods and assumptions used to determine contribution rates for fiscal year 2022:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years, closed ending September 30, 2036
Asset valuation method	5-year smoothed market
Inflation	2.25 percent
Salary increase	2.75 to 11.75 percent, including wage inflation at 2.75 percent
Investment rate of return	6.7 percent per year
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006

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 MET's 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 MET's 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 MET's contributions is a comparison of the employer's contributions to the actuarially determined contributions.

The information presented in the schedule of MET's contributions was used in the actuarial valuation for the purpose of determining the actuarially determined contribution rates.

Michigan Education Trust Plan D

Required Supplemental Information Schedule of MET's Proportionate Share of the Net OPEB Liability Health Care State Employees' Retirement System

	Last Five Fiscal Years				
	Plan Years Ended September 30				
	2022	2021	2020	2019	2018
MET's proportion of the net OPEB liability	0.03440 %	0.03600 %	0.03864 %	0.03556 %	0.02837 %
MET's proportionate share of the net OPEB liability	\$ 1,216,491	\$ 2,007,664	\$ 3,042,475	\$ 2,870,421	\$ 2,647,154
MET's covered payroll	\$ 1,138,047	\$ 1,049,389	\$ 1,171,708	\$ 1,055,453	\$ 935,614
MET's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.89 %	191.32 %	259.66 %	271.96 %	250.81 %
Plan fiduciary net position as a percentage of total OPEB liability	57.12 %	38.29 %	27.88 %	24.41 %	19.89 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MET presents information for those years for which information is available.

Michigan Education Trust Plan D

Required Supplemental Information Schedule of MET's OPEB Contributions State Employees' Retirement System

Last Five Fiscal Years Years Ended September 30

	2022	2021	2020	2019	2018
Statutorily required contribution	\$ 228,431	\$ 254,921	\$ 284,533	\$ 282,038	\$ 205,890
Contributions in relation to the statutorily required contribution	228,431	254,921	284,533	282,038	205,890
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
MET's Covered Payroll	\$ 1,302,822	\$ 1,138,047	\$ 1,049,389	\$ 1,171,708	\$ 1,055,453
Contributions as a Percentage of Covered Payroll	17.53 %	22.99 %	27.11 %	24.07 %	19.51 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarial determined contribution amounts are calculated as of September 30 each year. The September 30, 2019 valuation determined the contribution rate for the State of Michigan's fiscal year ended September 30, 2022.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, normal
Amortization method	Level percent of payroll
Remaining amortization period	15 years, closed ending September 30, 2036
Asset valuation method	5-year smoothed value
Inflation	2.25 percent
Health care cost trend rates	7.5 percent year 1 graded to 3.50 percent year 15
Salary increase	2.75 percent to 11.75 percent, including wage inflation of 2.75 percent
Investment rate of return	6.90 percent, net of OPEB plan investment
Mortality	RP-2014 Combined Healthy Mortality Table, adjusted for mortality improvements using projection scale MP-2017 from 2006

Michigan Education Trust Plan D

Required Supplemental Information Schedule of MET's Proportionate Share of the Total OPEB Liability Postemployment Life Insurance Benefit

	Last Four Fiscal Years Plan Years Ended September 30			
	2022	2021	2020	2019
MET's proportion of the total OPEB liability	0.03350 %	0.03500 %	0.03625 %	0.03411 %
MET's proportionate share of the total OPEB liability	\$ 433,190	\$ 465,678	\$ 443,925	\$ 425,656
MET's covered employee payroll	\$ 1,222,831	\$ 1,090,355	\$ 1,049,389	\$ 1,171,708
MET's proportionate share of the total OPEB liability as a percentage of its covered employee payroll	35.43 %	42.71 %	42.30 %	36.33 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MET presents information for those years for which information is available.

The Plan is not a trust and has no assets.

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 Management; 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 Michigan Education Trust Plan D (MET), a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2022 and the related notes to the financial statements, which collectively comprise MET's financial statements, and have issued our report thereon dated January 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MET's internal control over financial reporting (internal control) as a basis for designing 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 MET's internal control. Accordingly, we do not express an opinion on the effectiveness of MET'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 MET'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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings as Finding 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MET'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 financial statements. 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*.

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

MET's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on MET's response to the finding identified in our audit and described in the accompanying schedule of findings. MET's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

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

Plante & Moran, PLLC

January 17, 2023

Section II - Financial Statement Audit Findings

Reference Number	Finding
2022-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - Strong internal controls include ensuring that all transactions are appropriately accounted for and reported in the financial statements.</p> <p>Condition - Unique transactions entered into during the fiscal year were not reflected appropriately in the general ledger.</p> <p>Context - The two unique transactions related to the contract giveaway and scholarship awards were not properly accounted for at September 30, 2022. Both transactions occurred during the last month of the fiscal year (September 2022).</p> <p>Cause - A mechanism was not in place to identify the proper accounting treatment for unique transactions, such as the contract giveaway and scholarship awards. Specifics related to these transactions were not shared with accounting on a timely basis to be captured appropriately in the accounting records.</p> <p>Effect - As a result, adjustments were necessary to the final trial balance along with financial reporting.</p> <p>Recommendation - Management should implement a mechanism to capture transactions that are unique in nature so that they can be accounted for appropriately.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Treasury acknowledges the uniqueness and timing of the transactions. Treasury made the necessary entries to reflect the two transactions in the final statements prior to the finalization of the financial statements, with the eligible contracts given away to be included in the tuition payable moving forward. Treasury will implement a process to ensure transactions that are unique in nature are recorded properly and timely in future fiscal years.</p>