

Help Secure Their Futures

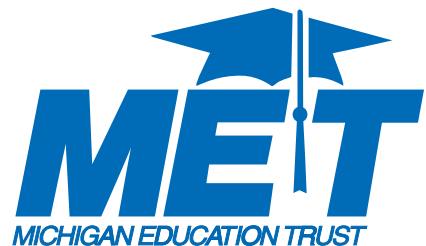


Michigan Education Trust

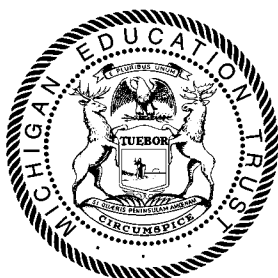
*2009-2010
Annual Report*

for Contract Plans B & C

www.SETwithMET.com



Tomorrow's Tuition...SET with MET!



This report is available at www.SETwithMET.com.
To have a copy mailed to you, call
1-800-MET-4-KID.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 2011

Dear MET Participants:

We are pleased to present the Fiscal Year 2009-10 Annual Report for the Michigan Education Trust (MET) program. By law, an actuarial evaluation must be performed annually to determine MET's ability to pay future benefits. The actuary report prepared by PricewaterhouseCoopers L.L.P. for contracts purchased from 1988 to 1990 (referred to in this Annual Report as Plan B and Plan C contracts) as of September 30, 2010, is available on-line at **www.SETwithMET.com**.

*If you have not yet purchased full four-year contracts, we encourage you to consider additional purchases this year. The 2011 enrollment period is currently open and ends June 30, 2011. Please feel free to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also e-mail us at **TreasMET@michigan.gov**.*

Sincerely,

Andy Dillon
MET Chairman
State Treasurer

Robin R. Lott
Executive Director
Michigan Education Trust

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the Michigan Education Trust (MET) program. Board members are responsible for policy development, investment initiatives, program development and implementations. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. The State Treasurer, Robert J. Kleine, serves as Chairperson. Robin Lott, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST BOARD OF DIRECTORS

MR. ROBERT J. KLEINE
State Treasurer
MET Chair

MR. ROBERT A. BOWMAN
MET President
President & CEO, MLB Advanced Media, L.P.

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MET Vice President
President, Cleary College

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President, Henry Ford Community College

DR. MARLENE E. DAVIS
CEO Leadership Strategies L.L.C.

MR. GREGORY CLEVINGER
Teacher, Rochester Adams High School

DR. BARBARA A. KLOCKO
Research Associate at Oakland University

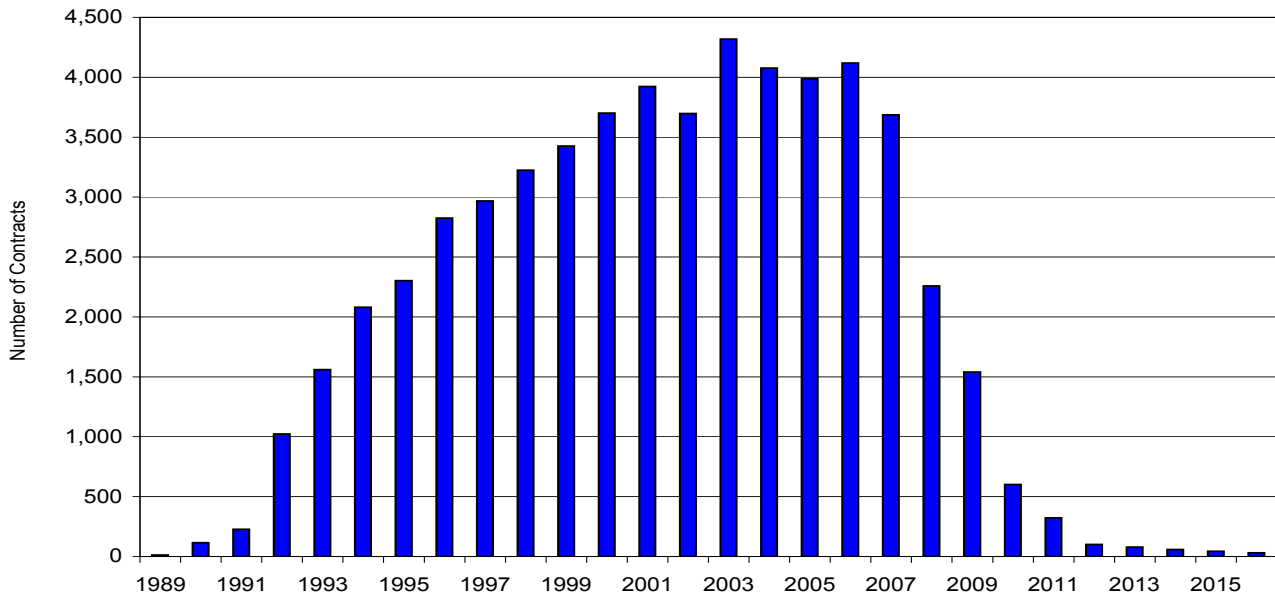
THE MET PROGRAM

MET was established pursuant to Public Act 316 of 1986 as Michigan's prepaid tuition program. MET is a "qualified tuition program" under Section 529 of the Internal Revenue Code which provides tax exemption for the trust and tax exemption of earnings for contract participants who use MET funds to pay for qualified higher education expenses.

MET allows parents, grandparents, businesses, and others to make contributions at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

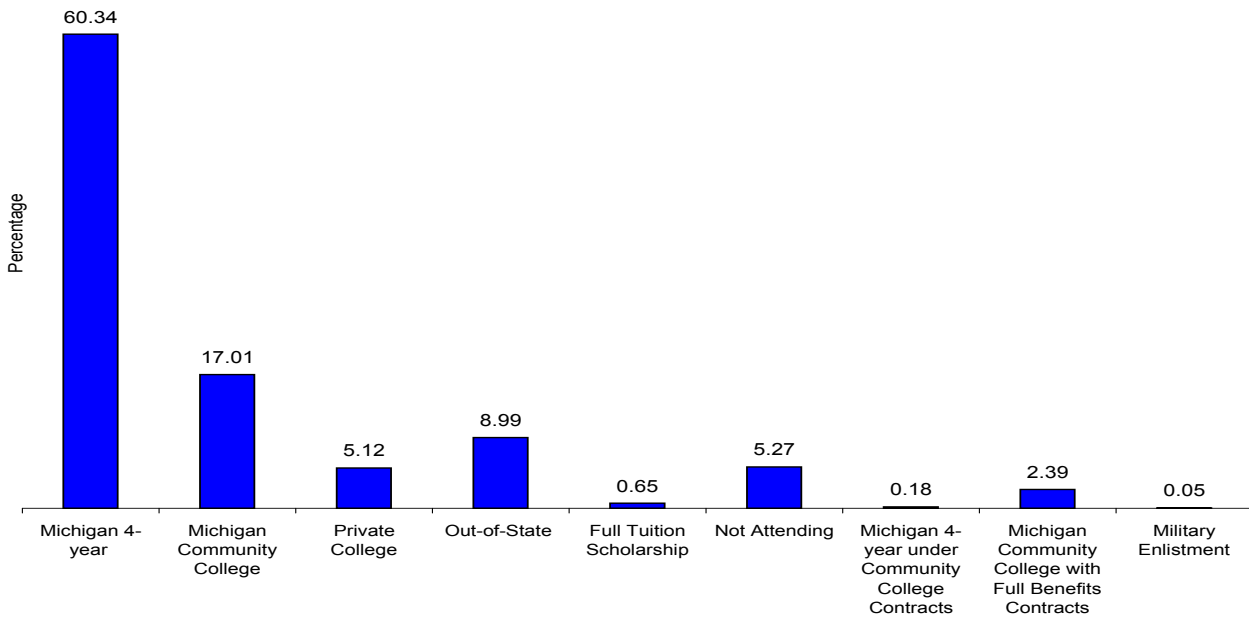
Contracts by Academic Year Beneficiary is Expected to Attend College

(as of September 30, 2010)

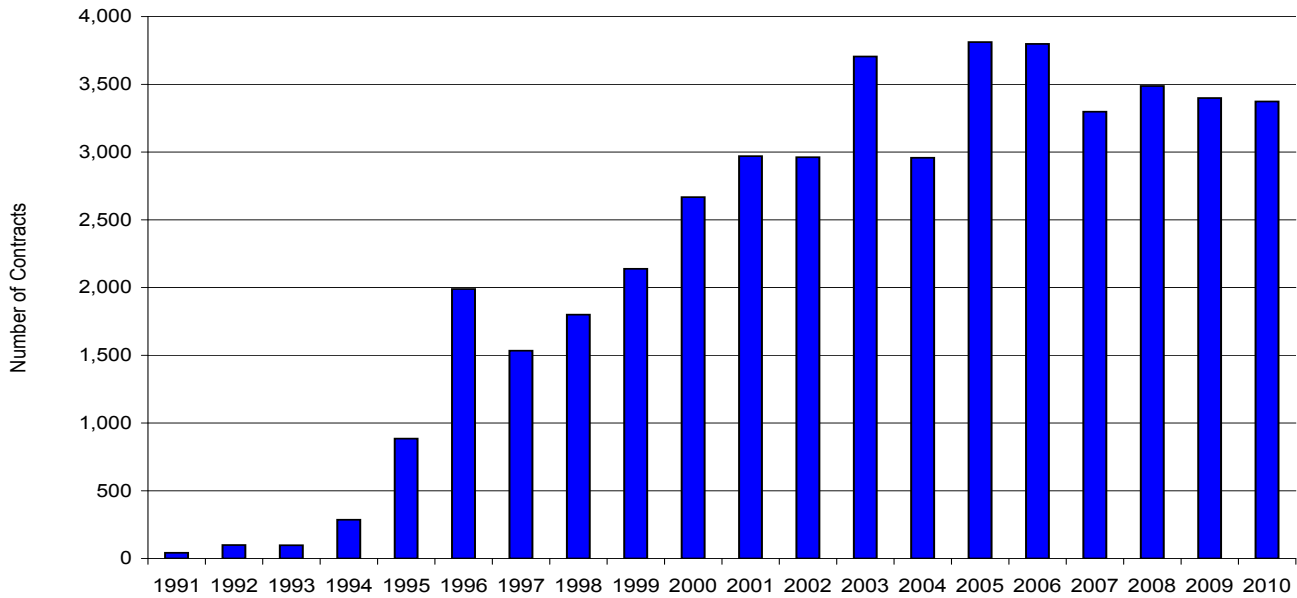


Contracts in Payment Status

(as of September 30, 2010)



Contracts Paid in Full (as of September 30, 2010)



TESTIMONIALS

“In the very first year of the MET program I purchased a full benefit contract for my son. He was eight years old. Today at 31, Kali has used his business degree from Wayne State University to rise in the managerial ranks at one of the world’s largest package and parcel delivery companies. The Michigan Education Trust provided the opportunity for him to focus on getting an education for a lifetime, rather than spend a lifetime of missing an education. Thanks MET.”

Cleophus Boyd Jr., Purchaser

“In 1988 we purchased a MET contract for our son when he was 12. It enabled him to pursue his engineering degree without worrying about rising tuition costs each semester. We have always felt that it was one of the best decisions we ever made. We were so completely satisfied with the program that 22 years later we are now purchasing MET contracts for his three children. What better gift can there be than the peace of mind of knowing that no matter how much tuition costs rise in the coming years, it will be covered?”

Charles and Joanne White, Purchasers

“God Bless MET. It is the best financial investment I have ever made! It has been most rewarding to watch my three children secure their undergraduate degrees with MET and successfully advance to graduate and medical studies.”

Dr. Jeffrey Weiss, Purchaser



PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (312) 298-2001

December 20, 2010

Rick Kaye, Owner
Richard M. Kaye & Associates
PricewaterhouseCoopers Plaza
1900 St. Antoine Street
Detroit, MI 48226

Dear Mr. Kaye:

At your request, PricewaterhouseCoopers LLP (PwC) has performed an actuarial valuation of Plans B and C (MET I) of the Michigan Education Trust (MET or the Trust), at the request of the Trust as of September 30, 2010. The valuation is based on data furnished by MET regarding the contracts submitted during the 1988, 1989 and 1990 enrollment periods; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1988, 1989 and 1990 enrollments.

We have determined that as of September 30, 2010, based on the aforementioned data and assumptions, the market value of Plan B assets exceeded the actuarial present value of Plan B benefits by \$27,571,469 and the market value of the Plan C assets exceeded the actuarial value of Plan C benefits by \$903,053.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

Christopher Walker, FCAS, MAAA
Principal, PricewaterhouseCoopers LLP

Michael E. Mielzynski, FCAS, MAAA
Manager, PricewaterhouseCoopers LLP



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on
the Financial Statements

Mr. Robert J. Kleine, State Treasurer and Chair
Michigan Education Trust Board of Directors
and
Ms. Robin R. Lott, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine and Ms. Lott:

We have audited the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows of the Michigan Education Trust Plans B and C, a discretely presented component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2010 and September 30, 2009. These financial statements are the responsibility of the Michigan Education Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Education Trust Plans B and C and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units, or the Michigan Education Trust Plan D, as of September 30, 2010 and September 30, 2009 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plans B and C as of September 30, 2010 and September 30, 2009 and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plans B and C for the fiscal years ended September 30, 2010 and September 30, 2009. 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.

The reporting standards in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, require a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. These financial statements are interrelated and represent the financial status of MET Plans B and C.

The statement of net assets includes the assets, liabilities, and net assets at the end of the fiscal year. The statement of revenues, expenses, and changes in net assets 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 Plans B and C

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 Plans B and C is invested 100% in fixed income investments.

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 approved an amendment allowing students 15 years from the expected year of high school graduation to completely use MET contract benefits. Prior to that change, students had 9 years to use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are tuition increases (short-term and long-term), investment performance, and college selection by students and purchasers.

Comparison of Current Year and Prior Year Results

Condensed Financial Information From the Statement of Net Assets

As of September 30

(In Thousands)

	2010	2009	2008
Current assets	\$ 103,626	\$ 156,918	\$ 201,816
Noncurrent assets	138,751	142,442	164,292
Total assets	\$ 242,377	\$ 299,360	\$ 366,108
Current liabilities	\$ 77,008	\$ 95,008	\$ 100,012
Noncurrent liabilities	136,894	181,850	237,708
Total liabilities	\$ 213,902	\$ 276,858	\$ 337,721
Net assets - Restricted	\$ 28,475	\$ 22,502	\$ 28,388
Total net assets	\$ 28,475	\$ 22,502	\$ 28,388

The overall financial position of MET Plans B and C for the fiscal years ended September 30, 2010 and September 30, 2009 is positive and shows net assets of \$28.5 million and \$22.5 million, respectively. The net assets increased by \$5.9 million in fiscal year 2009-10 as a result of a decrease in operating expenses, which was caused by a decrease in the tuition benefit expense (see Note 5). The net assets decreased by \$5.9 million in fiscal year 2008-09 primarily due to the operating loss of \$5.9 million. Interest and dividends income decreased in fiscal year 2008-09 due to MET's decision not to reinvest proceeds from the sale of long-term investments in the long-term portfolio, thus resulting in less interest and dividends income.

Current assets decreased by \$53.3 million in fiscal year 2009-10 and decreased by \$44.9 million in fiscal year 2008-09 primarily because of the decrease in cash and cash equivalents that were used to pay tuition benefit payments.

Noncurrent assets decreased by \$3.7 million in fiscal year 2009-10 and decreased by \$21.9 million in fiscal year 2008-09. The decreases were a result of the MET Plans B and C being closed to new contracts and the liquidation of investments to meet the increased tuition benefit payments.

Total liabilities decreased by \$62.9 million in fiscal year 2009-10 and decreased by \$60.9 million in fiscal year 2008-09. The tuition benefits payable decrease reflects the increase in tuition contract payments made to colleges.

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

	2010	2009	2008
Operating revenues			
Interest and dividends income	\$ 4,482	\$ 7,393	\$ 14,591
Net increase (decrease) in the fair value of investments	3,777	7,749	3,334
Other miscellaneous income	29	39	56
Total operating revenues	<u>\$ 8,288</u>	<u>\$ 15,181</u>	<u>\$ 17,981</u>
Operating expenses			
Salaries and other administrative expenses	\$ 913	\$ 792	\$ 851
Tuition benefit expense	1,403	20,275	11,531
Total operating expenses	<u>\$ 2,315</u>	<u>\$ 21,067</u>	<u>\$ 12,382</u>
Operating income (loss)	<u>\$ 5,973</u>	<u>\$ (5,886)</u>	<u>\$ 5,599</u>
Increase (Decrease) in net assets	\$ 5,973	\$ (5,886)	\$ 5,599
Net assets - Beginning of fiscal year	<u>22,502</u>	<u>28,388</u>	<u>22,789</u>
Net assets - End of fiscal year	<u>\$ 28,475</u>	<u>\$ 22,502</u>	<u>\$ 28,388</u>

Interest and dividends income decreased by \$2.9 million in fiscal year 2009-10 and decreased by \$7.2 million in fiscal year 2008-09. The decreases were attributed to decreases in investments held during the fiscal year.

The fair value of investments increased by \$3.8 million in fiscal year 2009-10 and increased by \$7.7 million in fiscal year 2008-09 because of increases in investment fair values and gains and losses on sold investments. The actual investment rate of return was only 3.1% in fiscal year 2009-10 and 4.46% in fiscal year 2008-09.

Tuition benefit expense decreased by \$18.9 million in fiscal year 2009-10 and increased by \$8.7 million in fiscal year 2008-09. The decrease and increase in both fiscal years resulted from the change in the present value of the future tuition benefit obligation.

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

	2010	2009	2008
Net cash provided (used) by:			
Operating activities	\$ (59,790)	\$ (75,260)	\$ (77,969)
Investing activities	5,391	29,599	199,675
Net cash provided (used) - All activities	\$ (54,399)	\$ (45,661)	\$ 121,706
Cash and cash equivalents - Beginning of fiscal year	147,437	193,099	71,392
Cash and cash equivalents - End of fiscal year	\$ 93,038	\$ 147,437	\$ 193,099

The **net cash used by operating activities** decreased by \$15.5 million in fiscal year 2009-10 and decreased by \$2.7 million in fiscal year 2008-09. The decreases in cash used by operating activities in both fiscal years was primarily the result of decreases in tuition contract payments to colleges and refund designees.

The **net cash provided by investing activities** decreased by \$24.2 million in fiscal year 2009-10 and decreased by \$170.1 million in fiscal year 2008-09. The decrease in cash provided by investing activities in fiscal year 2009-10 resulted because of the decreased amount of cash available for investing purposes. The decrease in cash provided by investing activities in fiscal year 2008-09 resulted when some investments matured and the proceeds were used to reinvest those proceeds into investment securities which had not occurred in fiscal year 2007-08.

Overall, the **cash and cash equivalents at the end of the fiscal year** decreased by \$54.4 million in fiscal year 2009-10 and decreased by \$45.7 million in fiscal year 2008-09.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State appropriated funds decrease.

MET Plans B and C reached the peak matriculation period during fiscal year 2005-06. During 2010, 4,063 students will be eligible to begin using MET contracts to attend college along with 8,688 students currently in the process of using MET contracts. After 2010, the number of students expected to enroll in college under MET Plans B and C will continue to decrease significantly because MET has fulfilled its contractual obligations for the majority of these contract holders and has not offered additional enrollments in these plans since 1990.

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Net Assets

As of September 30

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents (Note 3)	\$ 93,038,227	\$ 147,437,351
Amounts due from MET Program (Plan D)	2,704,865	3,386,117
Amounts due from primary government	4,878,778	4,843,910
Interest and dividends receivable	842,905	1,188,111
Amounts due from others	2,160,792	62,445
Total current assets	\$ 103,625,567	\$ 156,917,934
Noncurrent assets:		
Investments (Note 3)	138,750,515	142,442,238
Total assets	\$ 242,376,082	\$ 299,360,172
 LIABILITIES		
Current liabilities:		
Tuition benefits payable (Note 4)	\$ 77,000,000	\$ 95,000,000
Compensated absences	7,595	7,950
Total current liabilities	\$ 77,007,595	\$ 95,007,950
Noncurrent liabilities:		
Tuition benefits payable (Note 4)	136,748,311	181,698,790
Compensated absences	145,652	151,629
Total liabilities	\$ 213,901,558	\$ 276,858,369
 NET ASSETS		
Net assets - Restricted	\$ 28,474,524	\$ 22,501,803
Total net assets	\$ 28,474,524	\$ 22,501,803

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

MICHIGAN EDUCATION TRUST PLANS B AND C
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended September 30

	2010	2009
OPERATING REVENUES		
Interest and dividends income	\$ 4,481,649	\$ 7,393,424
Net increase (decrease) in the fair value of investments	3,776,935	7,748,650
Other miscellaneous income	29,455	39,277
Total operating revenues	\$ 8,288,039	\$ 15,181,351
OPERATING EXPENSES		
Salaries and other administrative expenses	\$ 912,605	\$ 792,079
Tuition benefit expense (Note 5)	1,402,713	20,275,240
Total operating expenses	\$ 2,315,318	\$ 21,067,319
Operating income (loss)	\$ 5,972,721	\$ (5,885,968)
Increase (Decrease) in net assets	\$ 5,972,721	\$ (5,885,968)
Net assets - Beginning of fiscal year	22,501,803	28,387,771
Net assets - End of fiscal year	\$ 28,474,524	\$ 22,501,803

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

MICHIGAN EDUCATION TRUST PLANS B AND C

Statement of Cash Flows

Fiscal Years Ended September 30

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and dividends received	\$ 4,744,063	\$ 9,719,068
Contract payments	(64,353,192)	(81,139,066)
Administrative and other expenses paid	(210,108)	(3,879,128)
Application and other fees collected	29,455	39,277
Net cash provided (used) by operating activities	\$ (59,789,782)	\$ (75,259,849)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	\$ (45,897,259)	\$ (113,165,144)
Proceeds from sale and maturities of investment securities	51,287,917	142,763,688
Net cash provided (used) by investing activities	\$ 5,390,658	\$ 29,598,544
Net cash provided (used) - All activities	\$ (54,399,124)	\$ (45,661,305)
Cash and cash equivalents - Beginning of fiscal year	147,437,351	193,098,656
Cash and cash equivalents - End of fiscal year	\$ 93,038,227	\$ 147,437,351
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 5,972,721	\$ (5,885,968)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Unrealized and realized (gains) losses	(3,776,935)	(7,748,650)
Changes in assets and liabilities:		
Amounts due from MET Program (Plan D)	681,252	(795,844)
Amounts due from others	62,445	
Amounts due from primary government	(34,868)	(2,292,815)
Amounts due from sale of investment	(82,792)	
Interest and dividends receivable	345,206	2,325,643
Undistributed charitable tuition		(4,784)
Compensated absences	(6,332)	6,395
Tuition benefits payable	(62,950,479)	(60,863,826)
Net cash provided (used) by operating activities	\$ (59,789,782)	\$ (75,259,849)

NONCASH INVESTING ACTIVITIES

The sale of an investment at year-end resulted in \$2,078,000 in amounts due from others.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plans B and C have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

b. Reporting Entity

MET was created under Act 316, P.A. 1986 (Sections 390.1421 - 390.1444 of the *Michigan Compiled Laws*), to operate a prepaid college tuition program. MET is governed by a 9-member Board of Directors that consists of 1 ex-officio member (the State Treasurer, acting as chairperson) and 8 public members who are appointed by the Governor with the advice and consent of the Senate. MET is administratively located within the Department of Treasury. The State Treasurer, as MET's agent, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan and is reported as such in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plans B and C. 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, or MET Plan D, in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units.

Act 316, P.A. 1986, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2010, there have been 18 enrollment periods over 17 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, 2008, 2009, and 2010 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 Plans B and C enrollments. Separate financial statements and actuarial valuation of the Plan D enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

Note 2 Summary of Significant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by accounting principles generally accepted in the United States of America as applicable to governmental units. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Tuition benefit expense represents accretion of the tuition benefits obligation (see Note 4).

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

b. Assets, Liabilities, and Net Assets

- (1) Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net assets include deposits with financial institutions and short-term investments with original maturities of less than three months used for cash management rather than investing activities.
- (2) Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Act 316, P.A. 1986, 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 assets with assets of the State, such as the pension funds, for investment purposes. Investments are carried at fair value (see Note 3).
- (3) Liabilities: The actuarial present value of the future tuition benefits obligation is recorded as a current and noncurrent liability of MET (see Note 4).
- (4) Net Assets: MET's net assets represent the investment appreciation and the investment revenue in excess of the actuarial present value of the future tuition benefits obligation and expenses (see Note 4). Net assets are restricted because of the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is Act 316, P.A. 1986. Section 17 of the Act indicates that the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the Act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of the Act.

Note 3 Deposits and Investments

a. General Information

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

b. Deposits

(1) Custodial Credit Risk

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

At the end of fiscal year 2009-10, the carrying amount of MET's deposits for Plans B and C and the amount reflected in the accounts of the banks was \$23,794,678. At the end of fiscal year 2008-09, the carrying amount of MET's deposits for Plans B and C and the amount reflected in the accounts of the banks was \$7,120,771. The September 30, 2010 and September 30, 2009 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, therefore, were not exposed to custodial credit risk.

(2) Foreign Currency Risk

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the fair value of a deposit. As of September 30, 2010 and September 30, 2009, MET had no foreign deposits.

c. Investments

(1) Interest Rate Risk

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

The following table shows the fair value of investments for Plans B and C by investment type and in total (in millions) at September 30, 2010:

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	\$ 69.2	\$ 69.2	\$	\$	\$
U.S. agencies - sponsored	21.7		8.8	12.9	
Foreign government - backed	4.0		4.0		
Corporate bonds and notes	113.0	17.0	85.2	10.8	
Total investments	<u>\$ 207.9</u>	<u>\$ 86.2</u>	<u>\$ 98.0</u>	<u>\$ 23.7</u>	<u>\$ 0</u>
Less investments reported as "cash equivalents" on statement of net assets					
	<u>(69.2)</u>				
Total investments	<u>\$ 138.7</u>				
<u>As Reported on the Statement of Net Assets</u>					
Noncurrent restricted investments	<u>\$ 138.7</u>				
Total investments	<u>\$ 138.7</u>				

The following table shows the fair value of investments for Plans B and C by investment type and in total (in millions) at September 30, 2009:

	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments:					
Commercial paper	\$ 140.3	\$ 140.3	\$	\$	\$
U.S. agencies - sponsored	38.1	13.1	16.3	8.6	
Corporate bonds and notes	104.4	7.5	76.3	20.5	
Total investments	<u>\$ 282.8</u>	<u>\$ 161.0</u>	<u>\$ 92.6</u>	<u>\$ 29.1</u>	<u>\$ 0</u>
Less investments reported as "cash equivalents" on statement of net assets					
	<u>140.3)</u>				
Total investments	<u>\$ 142.4</u>				
<u>As Reported on the Statement of Net Assets</u>					
Noncurrent restricted investments	<u>\$ 142.4</u>				
Total investments	<u>\$ 142.4</u>				

(2) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two national rating services: ratings of A-1 and A-2 from Standard & Poor's and ratings of P-1 and P-2 from Moody's Investors Service. MET's policy also limited investments in corporate bonds and mutual bond funds, 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, 2010, the fair value (in millions) and credit quality ratings of investments were as follows:

Investment	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Federal Home Loan Bank	\$ 15,701,410	AAA	Aaa
Federal National Mortgage Association	6,020,712	AAA	Aaa
KfW	4,021,200	AAA	Aaa
American Honda Finance Corp.	5,442,206	A+	A1
AT&T	3,056,955	A	A2
Avon Products, Inc.	2,695,200	A-	A2
Bank of America Corp.	4,271,476	A	A2
Caterpillar Financial Services Corp.	4,687,703	A	A2
Dell Inc.	2,602,968	A-	A2
Eaton Corp.	3,274,965	A-	A3
Estee Lauder Companies Inc.	3,430,305	A	A2
General Electric Capital Corp.	13,561,376	AA+	Aa2
Illinois Tool Works Inc.	3,404,634	A+	A1
John Deere Capital Corp.	3,002,655	A	A2
Oracle Corp.	1,722,022	A	A2
Pfizer Inc.	3,157,899	AA	A1
Procter & Gamble Company	3,275,709	AA-	Aa3
Seariver Maritime Financial Holdings, Inc.	25,778,655	AAA	Aaa
Shell International Finance B.V.	12,908,224	AA	Aa1
Target Corp.	2,921,711	A+	A2
TJX Companies, Inc.	2,768,660	A	A3
US Central Federal Credit Union	5,042,720	AAA	Aaa
Wal-Mart Stores, Inc.	2,676,655	AA	Aa2
Walt Disney Company	3,324,495	A	A2
Total fair value	<u>\$138,750,515</u>		

As of September 30, 2009, the fair value (in millions) and credit quality ratings of investments were as follows:

Investment	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Federal Home Loan Bank	\$ 7,824,522	AAA	Aaa
Federal Home Loan Mortgage Corp.	14,076,874	AAA	Aaa
Federal Farm Credit Banks	3,744,976	AAA	Aaa
Federal National Mortgage Association	3,015,534	AAA	Aaa
Israel Trust	9,401,299	AAA	Not rated
American Honda Finance Corp.	5,544,862	A+	A1
Avon Products, Inc.	2,480,895	A	A2
Bank of America Corp.	4,100,672	A	A2
BP Capital Markets	4,241,221	AA	Aa1
Caterpillar Financial Services Corp.	4,506,460	A	A2
Dell Inc.	2,590,482	A-	A2
Eaton Corp.	3,180,312	A-	A3
Estee Lauder Companies Inc.	3,144,000	A	A2
General Electric Capital Corp.	9,797,550	AA+	Aa2
Illinois Tool Works Inc.	3,221,640	A+	A1
John Deere Capital Corp.	3,045,819	A	A2
Oracle Corp.	1,577,978	A	A2
Pfizer Inc.	3,186,663	AAA	Aa2
Procter & Gamble Company	3,072,267	AA-	Aa3
Ralston Purina Co.	5,010,870	AA	Not rated
Seariver Maritime Financial Holdings, Inc.	25,069,203	AAA	Aaa
Shell International Finance B.V.	4,201,664	AA	Aa1
Target Corp.	2,706,627	A+	A2
Textron Financial Corp.	2,500,215	BB+	Baa3
TJX Companies, Inc.	2,582,873	A	A3
Toyota Motor Credit Corp.	2,862,621	AA	Aa1
Wal-Mart Stores, Inc.	2,552,513	AA	Aa2
Walt Disney Company	3,201,627	A	A2
Total fair value	<u>\$142,442,238</u>		

(3) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MET will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. MET's investments are registered in its name and, therefore, are not subject to custodial credit risk. MET does not have an investment policy for custodial credit risk.

(4) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MET's investments with a single issuer. MET does not have a policy to limit the concentration of credit risk. At September 30, 2010, MET had the following investments that represented 5% or more of total investments:

Investment	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Federal Home Loan Bank	\$ 15,701,410	AAA	Aaa
Seariver Maritime Financial Holdings, Inc.	\$ 25,778,655	AAA	Aaa
General Electric Capital Corp.	\$ 13,561,376	AA+	Aa2
Shell International Finance B.V.	\$ 12,908,224	AA	Aa1

At September 30, 2009, MET had the following investments that represented 5% or more of total investments:

Investment	Fair Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
Federal Home Loan Mortgage Corp.	\$14,076,874	AAA	Aaa
Federal Home Loan Bank	\$ 7,824,522	AAA	Aaa
Seariver Maritime Financial Holdings, Inc.	\$25,069,203	AAA	Aaa
General Electric Capital Corp.	\$ 9,797,550	AA+	Aa2
Israel Trust	\$ 9,401,299	AAA	Not rated

(5) Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of investments. As of September 30, 2010 and September 30, 2009, MET had no investments subject to foreign currency risk.

Note 4 Tuition Benefits Payable

The standardized measurement of the total 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 the trust based on the investment income and discount rate assumptions. The

following table shows the net value of total assets less compensated absences, the present value of total tuition benefits obligation, and the net assets of MET Plans B and C as of September 30:

	2010	2009
Net value of assets less compensated absences	\$242,222,835	\$299,200,593
Present value of total tuition benefits obligation	213,748,311	276,698,790
Net value of assets in excess of tuition benefits obligation	<u>\$ 28,474,524</u>	<u>\$ 22,501,803</u>
Net value of assets as a percentage of total tuition benefits obligation	113.3%	108.1%

The most important assumptions used in the actuarial valuations include the following:

- (1) The investment yield applied to expected future cash flows to determine present value was 2.20% as of September 30, 2010 and 2.20% as of September 30, 2009. This investment yield approximates the expected investment earnings over the lifetime of the present tuition benefit contracts. It is premised that expected benefit payments will be diversified in duration to allow MET to invest at the assumed investment yield of 2.20% and to also be able to liquidate its investments in order to meet future benefit payments while still earning the investment yield of 2.20%.
- (2) For fiscal year 2009-10, the projected tuition increase was 6.50% compounded annually for all future years. The MET Board of Directors considered the relationship of tuition increases to the consumer price index in determining the tuition increase assumption of 6.50%.
- (3) There was no tax effect from federal income tax.
- (4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuations for Plans B and C:

	Fiscal Years				
	2009-10	2008-09	2007-08	2006-07	2005-06
Tuition increase	6.50%	6.50%	7.30%	7.30%	7.30%
Tuition increase - long-term	6.50%	6.50%	7.30%	7.30%	7.30%
Present value discount rate	2.20%	2.20%	4.75%	4.75%	4.75%

The following summarizes the tuition benefits payable as of and for the fiscal years ended September 30, 2010 and September 30, 2009:

Balance at October 1, 2008	\$337,562,616
Tuition benefit expense provision	20,275,240
Payments	(81,139,066)
Balance at September 30, 2009	\$276,698,790
Tuition benefit expense provision	1,402,713
Payments	(64,353,191)
Balance at September 30, 2010	\$213,748,312

The amounts due within one year for tuition benefits payable for the fiscal years ended September 30, 2010 and September 30, 2009 are \$77,000,000 and \$95,000,000, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefits liability. Actual results may differ from the assumptions utilized.

Note 5 Tuition Benefit Expense

Tuition benefit expense is recognized each year and reflects changes in the present value of the tuition benefits payable for increases or decreases in tuition payments compared to actuarial tuition assumptions. The actuarial assumptions adopted by the MET Board of Directors have a significant impact on the calculation of the tuition benefit expense.

Note 6 Tax Status

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan; thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or the beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions are no longer subject to federal income tax if used for qualified higher education expenses. The federal Pension Protection Act enacted in August 2006 provides permanent tax exemption for Internal Revenue Code Section 529 qualified tuition programs.

On August 20, 1996, the Small Business Job Protection Act of 1996 (known as the "1996 Tax Act") was signed into law. The 1996 Tax Act included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified tuition programs." A qualified tuition program is generally exempt from income tax but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with 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.

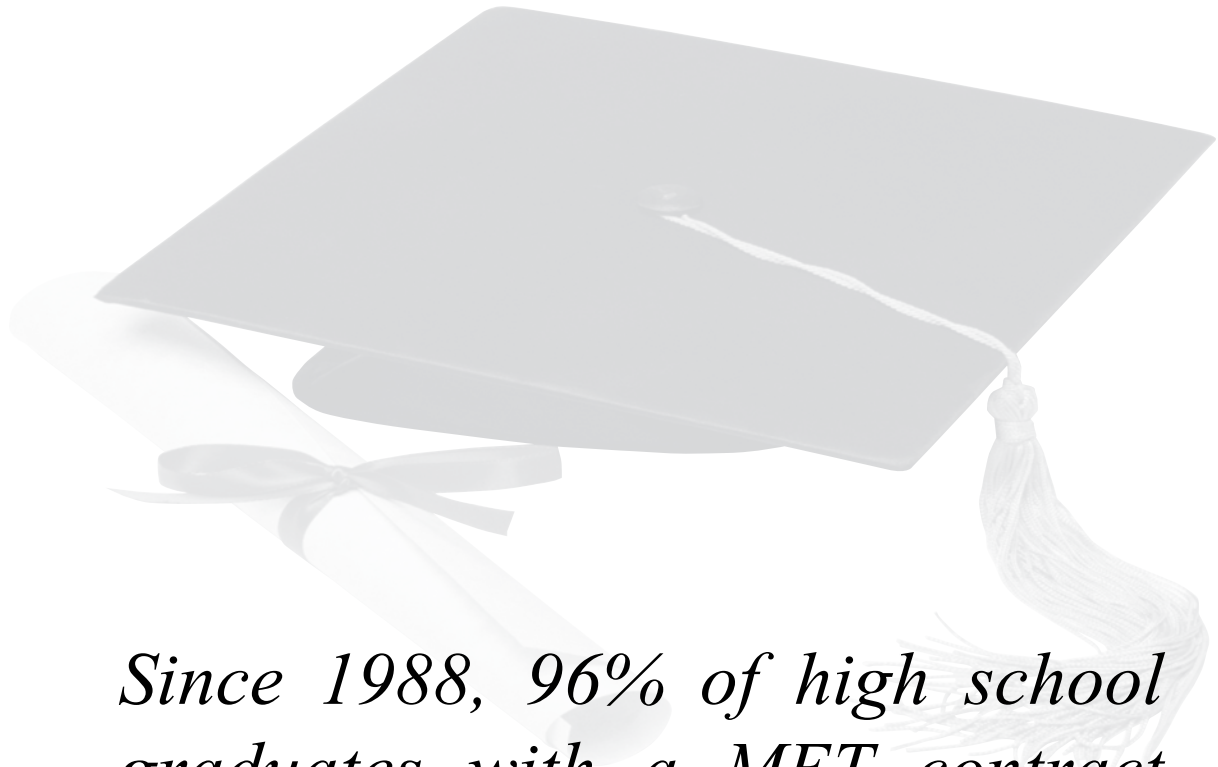
Note 7 Risk Management

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 & Budget.

Note 8 Pension Plans

MET employees are State classified employees who are covered by the State Employees' Retirement System Defined Benefit or Defined Contribution Plans. Detail and data regarding the Plans' descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the Plans' detailed financial reports. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The cost of retiree health care and other benefits is allocated by the Office of Retirement Services and funded on a pay-as-you-go basis.

MET was billed and paid an average 33.3% and 30.6% of its payroll costs for pension charges and retiree postemployment benefits in fiscal years 2009-10 and 2008-09, respectively. The Plans' detailed financial statements can be obtained from the Office of Retirement Services, Department of Technology, Management & Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.



Since 1988, 96% of high school graduates with a MET contract have gone on to attend a college or university.

Contract Number(s)

Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document; therefore, any changes to the contract must be made in writing to the MET office and mailed (or faxed) to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. If change of address applies to more than one Beneficiary (student), please copy this form and submit a separate form for each Beneficiary (student).

This change of address applies to (check all that apply):	
<input type="checkbox"/> Purchaser	<input type="checkbox"/> Beneficiary (student) <input type="checkbox"/> Appointee
Name	E-mail Address
New Address	Daytime Telephone ()
City, State, ZIP Code	

The Purchaser's signature is required to change Purchaser address. Purchaser may also sign to change address for an Appointee and a Beneficiary under 18 years of age.	
Purchaser Signature	Date

The Beneficiary must be 18 years of age and can only change his/her address.	
Beneficiary Signature	Date

The Appointee's signature is required to change Appointee's address. Appointee may also sign to change address for the Purchaser and a Beneficiary under 18 years of age.	
Appointee Signature	Date

MAIL TO:
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