Michigan Education Trust
2004-2005 Annual Report
for Contract Plan D

For additional copies, contact MET at:

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JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

October 2006

Dear MET Participants:

We are pleased to present the Fiscal Year 2004-05 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 actuarial report prepared by PricewaterhouseCoopers L.L.P. for contracts purchased after 1995 (referred to in this Annual Report as Plan D contracts) as of September 30, 2005, is available on-line at www.met4kid.com.

The MET Board of Directors also conducts a quarterly review of MET's financial status. The tuition increase assumptions, investment rate of return assumptions, and the investment portfolio are adjusted as necessary to assure continued soundness of the program.

We are pleased to announce that the Deficit Reduction Act of 2005 was signed into law this year, giving parents who choose to save in a prepaid tuition plan an equal opportunity for federal financial aid eligibility when it is time to enroll their children in college. In the past, prepaid tuition plans were treated as a student resource which reduced the overall eligibility for financial aid by the total dollar amount saved. The newly signed legislation will recognize savings in prepaid tuition plans as an asset of the parent and only count approximately 6% of the assets into the financial aid eligibility calculation.

On behalf of the MET Board of Directors, we thank you for participating in the MET program and encouraging your beneficiaries to pursue postsecondary education. *If you have not yet purchased full four-year contracts, we encourage you to consider additional purchases this year. The 2007 enrollment period will be October 1, 2006 – January 31, 2007 and April 1 – July 31, 2007.* 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,

Robert J. Kleine
MET Chairman
State Treasurer

Robin R. Lott-McMillan
Executive Director
Michigan Education Trust

P.O. BOX 30198 • LANSING, MICHIGAN 48909
www.michigan.gov/treasury • (517) 335-4767 or (800) MET-4-KID

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, Jay B. Rising, serves as Chairperson. Robin Lott-McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST BOARD OF DIRECTORS

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State Treasurer
MET Chair

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

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Representing the General Public

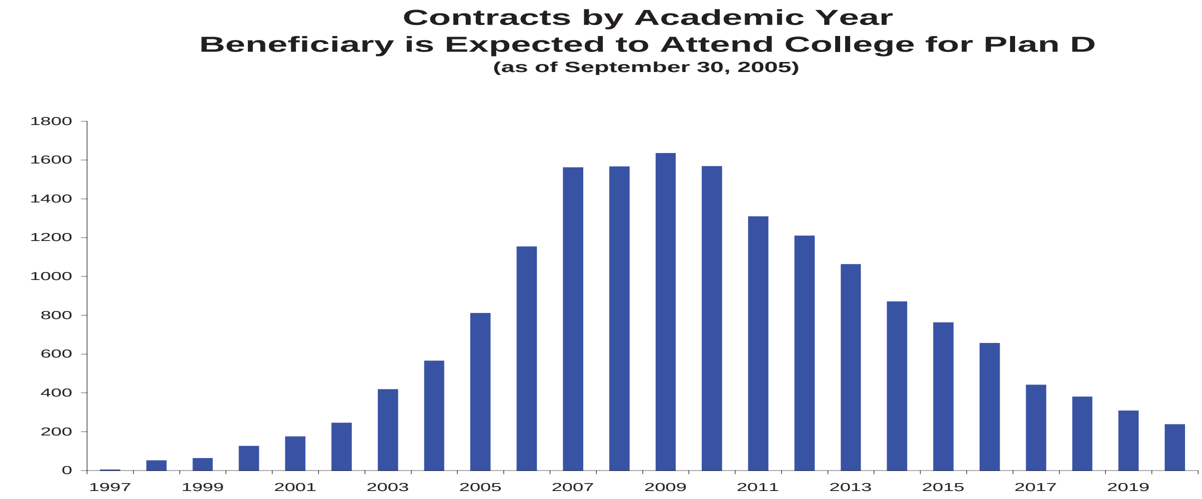
MS. KATHLEEN SCHMALTZ
Freelance Television Broadcaster

MS. STEPHANIE M. EAGEN
Certified Public Accountant, Port Huron School District

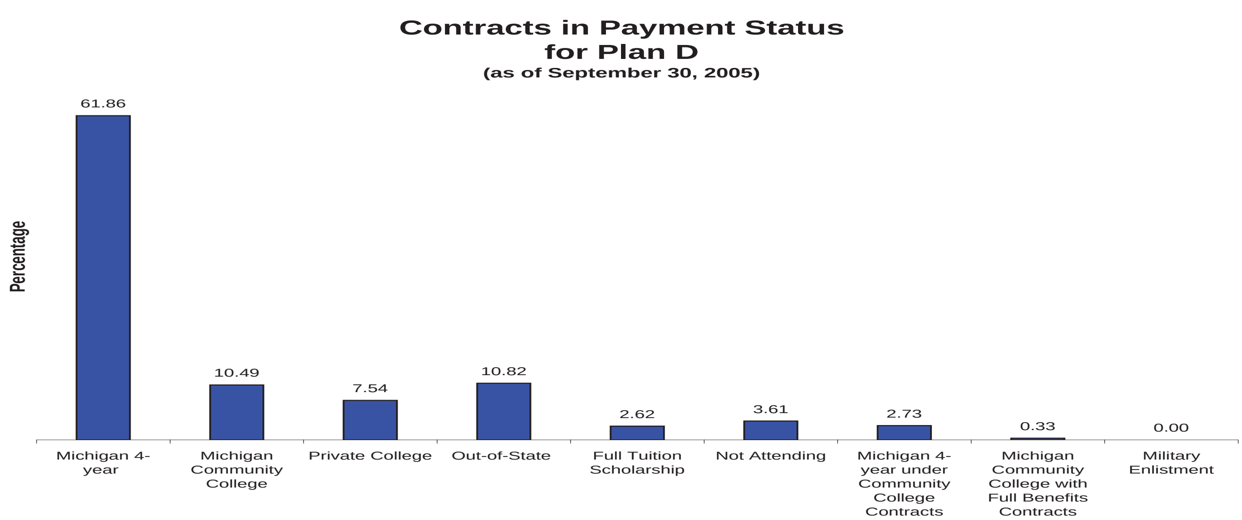
THE MET PROGRAM

MET was established pursuant to Public Act 316 of 1986 as Michigan's guaranteed 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.

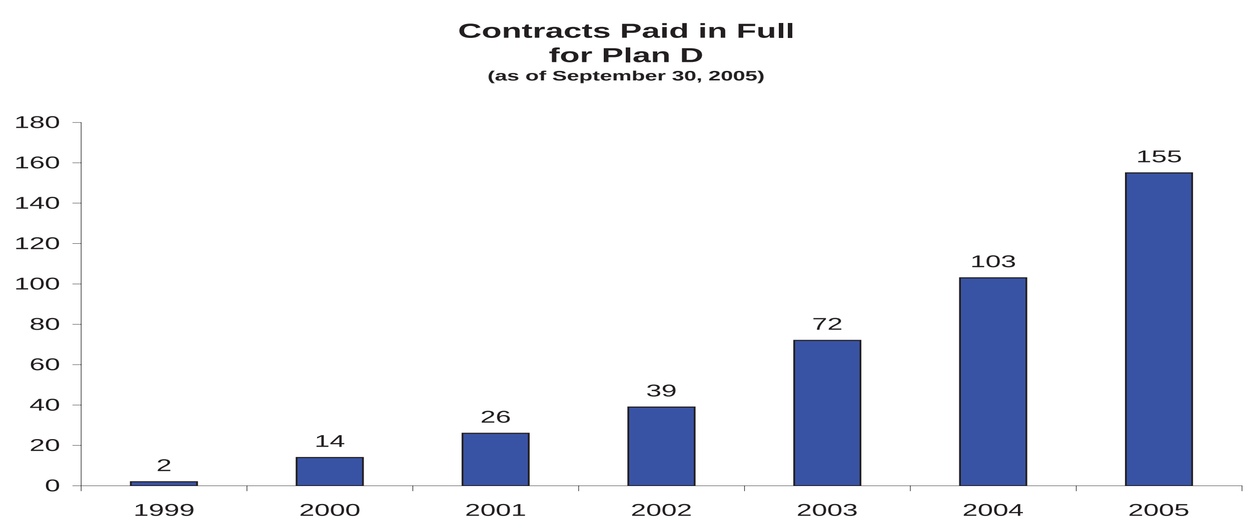
MET allows parents, grandparents, businesses and others, to make contributions, at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established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



Contracts by Academic Year
Beneficiary is Expected to Attend College for Plan D
(as of September 30, 2005)
1800
1600
1400
1200
1000
800
600
400
200
0
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019



Contracts in Payment Status
for Plan D
(as of September 30, 2005)
Percentage
61.86
10.49
7.54
10.82
2.62
3.61
2.73
0.33
0.00
Michigan 4-year
Michigan Community College
Private College
Out-of-State
Full Tuition Scholarship
Not Attending
Michigan 4-year under Community College Contracts
Michigan Community College with Full Benefits Contracts
Military Enlistment



Contracts Paid in Full
for Plan D
(as of September 30, 2005)
180
160
140
120
100
80
60
40
20
0
2
14
26
39
72
103
155
1999
2000
2001
2002
2003
2004
2005

PRICEWATERHOUSECOOPERS

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

December 22, 2005

Mr. Jay B. Rising
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Rising:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plan D (MET II) of the Michigan Education Trust ("MET II or "the Trust"), at the request of the Trust as of September 30, 2005. The valuation is based on data furnished by MET regarding the contracts submitted during the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, and one month of 2006 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005, and one month of 2006 enrollments.

We have determined that as of September 30, 2005, based on the aforementioned data and assumptions, the market value of Plan D assets was less than the actuarial present value of Plan D benefits by $44,336,986.

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,

Michael Mielzynski

Michael Mielzynski, FCAS, MAAA
Manager
PricewaterhouseCoopers LLP

Richard M Kaye

Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates

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. Jay B. Rising, Chair
Board of Directors
and
Ms. Robin R. McMillan, Executive Director
Michigan Education Trust
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Rising and Ms. McMillan:

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 Plan D, a component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2005 and September 30, 2004. 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 Plan D and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2005 and September 30, 2004 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 Plan D as of September 30, 2005 and September 30, 2004 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 22, 2005 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.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 22, 2005

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, 2005 and September 30, 2004. MET is an Internal Revenue Code Section 529 prepaid tuition program and is a 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 financial statements are interrelated and represent the financial status of MET.

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.

Analysis of Financial Activities

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 MET management, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plan D may be invested up to 50% 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. Students have nine years from the expected year of high school graduation to completely 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 against MET by students and purchasers.

Overall, MET Plan D experienced a 29.62% increase in new contract enrollments from the prior year, which increased the amount of cash received in comparison to fiscal year 2003-04. MET received 3,396 new contracts and $43 million in prepaid tuition amounts during fiscal year 2004-05. In fiscal year 2003-04, MET received 2,620 new contracts and $31 million in prepaid tuition amounts. In fiscal year 2002-03, MET received 4,462 new contracts and $54 million in prepaid tuition amounts. The primary reason for the fluctuations in the contracts sold was the length of the open enrollment period.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Assets (Deficit)
As of September 30
(In Thousands)

	2005	2004	2003
Current assets	$ 49,510	$ 70,437	$ 59,941
Noncurrent assets	352,568	262,177	213,987
Total Assets	$ 402,078	$ 332,614	$ 273,927
Current liabilities	$ 7,281	$ 5,045	$ 3,274
Noncurrent liabilities	439,133	363,431	280,752
Total Liabilities	$ 446,415	$ 368,476	$ 284,026
Net Assets - Unrestricted	$ (44,337)	$ (35,863)	$ (10,099)
Total Net Assets	$ (44,337)	$ (35,863)	$ (10,099)

Total net assets decreased by $8.5 million in fiscal year 2004-05 and by $25.8 million in fiscal year 2003-04. The net assets decreased primarily because the asset performance was lower than expected. The decrease in net assets was somewhat offset by lower-than-expected tuition and fee increases and longer-than-expected delays by beneficiaries in their usage of contracts.

Current assets decreased by $20.9 million in fiscal year 2004-05 primarily because of the decrease in cash and cash equivalents. Cash and cash equivalents include short-term investments. The decrease was because the proceeds were reinvested in the long-term portfolio. Current assets increased by $10.5 million in fiscal year 2003-04 primarily because of an increase in cash and cash equivalents. The increase resulted when some investments matured and the proceeds were not immediately reinvested in the long-term portfolio because of market volatility.

Noncurrent assets increased by $90.4 million in fiscal year 2004-05 and by $48.2 million in fiscal year 2003-04. These increases reflect an increase in new contract prepaid tuition amounts received in fiscal year 2004-05 and in fiscal year 2003-04, which included lump-sum and monthly purchase contracts.

The MET Plan D target portfolio was 50% invested in short-term investments, U.S. government securities, and corporate bonds and 50% invested in equities. The actual portfolio was 59.53% fixed income investments and 40.47% equity.

Current liabilities increased by $2.2 million in fiscal year 2004-05 and by $1.8 million in fiscal year 2003-04. Amounts due to MET Program (Plans B and C) increased primarily because of an increase in marketing and other administrative expenses during fiscal year 2004-05 and fiscal year 2003-04.

Noncurrent liabilities increased by $75.7 million in fiscal year 2004-05 and by $82.7 million in fiscal year 2003-04. The tuition benefits payable increases reflect the changes in the actuarial present value of the future tuition obligation and increases for new contracts issued. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount because of the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions.

Current and noncurrent tuition benefits payable increased to reflect the increase in lump-sum and monthly purchase contracts received and the actuarial present value of future tuition benefit obligations.

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

	2005	2004	2003
Operating Revenues			
Interest and dividend income	$ 8,534	$ 5,674	$ 3,671
Net realized and unrealized appreciation (depreciation) in the fair value of investments	6,928	7,900	7,821
Other miscellaneous income	108	197	283
Total Operating Revenues	$ 15,570	$ 13,771	$ 11,775
Operating Expenses			
Salaries and other administrative expenses	$ 1,285	$ 1,056	$ 596
Tuition benefit expenses	22,760	38,479	8,404
Total Operating Expenses	$ 24,044	$ 39,534	$ 9,000
Operating Income (Loss)	$ (8,474)	$ (25,764)	$ 2,775
Nonoperating Revenues (Expenses)	$ 0	$ 0	$ 0
Transfers	$ 0	$ 0	$ 0
Increase (Decrease) in Net Assets	$ (8,474)	$ (25,764)	$ 2,775
Net assets - Beginning of fiscal year	(35,863)	(10,099)	(12,874)
Net assets - End of fiscal year	$ (44,337)	$ (35,863)	$ (10,099)

Interest and dividend income increased by $2.9 million in fiscal year 2004-05 and by $2.0 million in fiscal year 2003-04 primarily because of an increase in investments.

Net realized and unrealized appreciation (depreciation) in the fair value of investments decreased by $1.0 million in fiscal year 2004-05 primarily because of a decrease in market value of investments in U.S. government securities and corporate bonds during the fiscal year. The increase of $79,000 in fiscal year 2003-04 was primarily because of an increase in market value of investments in equities during the fiscal year and contributed to an overall increase in operating revenues in fiscal year 2003-04.

Salaries and other administrative expenses increased by $229,000 in fiscal year 2004-05 and by $460,000 in fiscal year 2003-04. These increases are attributed to the increase in marketing cost and other administrative expenses.

Tuition benefit expenses decreased by $15.7 million in fiscal year 2004-05 and increased by $30.1 million in fiscal year 2003-04 because of the actuarially determined tuition benefit obligation. The primary reason for both the increase and the decrease related to the updating of actuarial assumptions used by the actuary to calculate the tuition benefit obligation.

The deficit in **net assets - end of fiscal year** increased by $8.5 million in fiscal year 2004-05 and by $25.8 million in fiscal year 2003-04. The increase in fiscal year 2004-05 was primarily because interest earnings were less than expected and tuition and fee increases were greater than expected. The increase in fiscal year 2003-04 was because actuarial assumptions for future interest earnings decreased from 8.10% in fiscal year 2002-03 to 7.25% in fiscal year 2003-04.

As stated in the actuary's 2005 report, MET Plan D is 90.0% funded and is able to pay benefits through 2020 even if no new contracts are issued.

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

	2005	2004	2003
Cash provided (used) by:			
Operating activities	$ 60,891	$ 50,998	$ 64,899
Investing activities	(86,170)	(38,410)	(63,487)
Net cash provided (used) - All activities	$ (25,279)	$ 12,588	$ 1,412
Cash and cash equivalents - Beginning of fiscal year	57,857	45,269	43,857
Cash and cash equivalents - End of fiscal year	$ 32,579	$ 57,857	$ 45,269

Cash provided by operating activities increased by $9.9 million in fiscal year 2004-05 primarily because of an increase in contract enrollment from fiscal year 2003-04. The decrease of $13.9 million in fiscal year 2003-04 was primarily because of a decrease in contract enrollment from fiscal year 2002-03.

Cash used by investing activities increased by $47.8 million in fiscal year 2004-05 because of the increased amount of cash available for investment purposes. This line item decreased by $25.1 million in fiscal year 2003-04 because of the decreased amount of cash available for investing purposes.

Open enrollment for fiscal year 2004-05 resulted in a 38.7% increase in prepaid tuition amounts received compared to amounts received in the prior fiscal year. Open enrollment during fiscal year 2003-04 resulted in a 41.7% decrease in prepaid tuition amounts received compared to amounts in the prior fiscal year. 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.

Factors Impacting Future Periods

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

MET enrollment for 2004 was held from December 15, 2003 through April 15, 2004. Enrollment for 2005 was held from September 1, 2004 through June 15, 2005. The 2006 enrollment began September 1, 2005 and will end August 31, 2006. New enrollments will increase cash, future tuition benefits payable, and the asset base of MET Plan D.

MET Plan D is 90.0% funded and is expected to pay benefits through 2020 even if no new contracts are issued. The MET Board of Directors reviews asset allocation and investment performance on a quarterly basis. During the year, the Board has changed the long-term investment portfolio strategy to address the unfunded liability issue. At the beginning of the fiscal year, the MET Plan D target portfolio for investment was 30% in equities and 70% in short-term investments, U.S. government securities, and corporate bonds. At the end of the fiscal year, the Bureau of Investments was given the authority to invest up to 50% in equities and 50% in fixed income investments.

MICHIGAN EDUCATION TRUST PLAN D

Statement of Net Assets

As of September 30

	2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 32,578,805	$ 57,857,322
Tuition contracts receivable (Note 4)	15,218,470	11,331,126
Interest and dividends receivable	1,712,343	1,248,907
Total Current Assets	$ 49,509,618	$ 70,437,355
Noncurrent Assets:		
Investments (Note 3)	313,437,541	220,340,083
Tuition contracts receivable (Note 4)	39,130,487	41,836,429
Total Assets	$ 402,077,645	$ 332,613,867
LIABILITIES		
Current Liabilities:		
Amounts due to MET Program (Plans B and C)	$ 1,281,486	$ 1,045,404
Tuition benefits payable (Note 5)	6,000,000	4,000,000
Total Current Liabilities	$ 7,281,486	$ 5,045,404
Noncurrent Liabilities:		
Tuition benefits payable (Note 5)	439,133,146	363,431,042
Total Liabilities	$ 446,414,632	$ 368,476,446
NET ASSETS		
Net Assets - Unrestricted	$ (44,336,986)	$ (35,862,579)
Total Net Assets	$ (44,336,986)	$ (35,862,579)

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

MICHIGAN EDUCATION TRUST PLAN D

Statement of Revenues, Expenses, and Changes in Net Assets

Fiscal Year Ended September 30

	2005	2004
OPERATING REVENUES		
Interest and dividend income	$ 8,534,064	$ 5,674,231
Net realized and unrealized appreciation (depreciation) in the fair value of investments	6,927,548	7,900,066
Other miscellaneous income	108,472	196,536
Total Operating Revenues	$ 15,570,084	$ 13,770,833
OPERATING EXPENSES		
Salaries and other administrative expenses	$ 1,284,831	$ 1,055,887
Tuition benefit expenses	22,759,660	38,478,508
Total Operating Expenses	$ 24,044,492	$ 39,534,395
Operating Income (Loss)	$ (8,474,407)	$ (25,763,562)
Nonoperating Revenues (Expenses)	$ 0	$ 0
Transfers	$ 0	$ 0
Increase (Decrease) in Net Assets	$ (8,474,407)	$ (25,763,562)
Net assets - Beginning of fiscal year	(35,862,579)	(10,099,017)
Net assets - End of fiscal year	$ (44,336,986)	$ (35,862,579)

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

MICHIGAN EDUCATION TRUST PLAN D

Statement of Cash Flows

Fiscal Year Ended September 30

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Contract receipts	$ 58,944,556	$ 49,784,348
Interest and dividends received	8,070,628	5,431,511
Contract payments	(5,183,444)	(3,829,522)
Administrative and other expenses paid	(1,048,819)	(584,958)
Application and other fees collected	108,472	196,536
Net cash provided (used) from operating activities	$ 60,891,393	$ 50,997,915
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	$(101,151,512)	$ (85,419,869)
Proceeds from sale and maturities of investment securities	14,981,602	47,010,290
Net cash provided (used) by investing activities	$ (86,169,910)	$ (38,409,579)
Net cash provided (used) - All activities	$ (25,278,516)	$ 12,588,336
Cash and cash equivalents - Beginning of fiscal year	57,857,322	45,268,985
Cash and cash equivalents - End of fiscal year	$ 32,578,805	$ 57,857,322
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (8,474,407)	$ (25,763,562)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Unrealized and realized (gains) losses	(6,927,548)	(7,900,066)
Changes in assets and liabilities:		
Tuition contracts receivable	(1,181,402)	454,277
Interest and dividends receivable	(463,436)	(242,720)
Amounts due to MET Program (Plans B and C)	236,082	470,929
Tuition benefits payable	77,702,104	83,979,058
Net cash provided (used) by operating activities	$ 60,891,393	$ 50,997,915

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plan D have been prepared in accordance with generally accepted accounting principles applicable to governments.

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 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 in conformity with generally accepted accounting principles applicable to governments.

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 actuarial 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, 2005, there have been 12 enrollment periods for MET. The 1988, 1989, and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers the Plan D enrollments. A separate financial report and actuarial valuation of Plans B and C enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

Note 2 Summary of Significant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. 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 expenses represent accretion of the tuition benefits obligation (see Note 5).

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

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.

Cash and 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 market value (see Note 3).

Act 316, P.A. 1986, requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Tuition Contracts Receivable: The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. In fiscal year 2004-05, the discount rate applied to expected future cash flows to determine present value was 7.25%. In fiscal year 2003-04, the discount rate was 7.25%.

Liabilities: The actuarial present value of the future tuition obligation is recorded as a current and noncurrent liability of MET (see Note 5).

Net Assets: MET's net assets represent the investment appreciation and the investment revenue in excess of (or less than) the actuarial present value of the future tuition obligation and expenses (see Note 5). Negative net assets are unrestricted. The enabling legislation for MET is Act 316, P.A. 1986. Section 17 of the Act indicates:

> The assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in this act and shall not be loaned or otherwise transferred or used by the state for any purpose other than the purposes of this act.

Note 3 Deposits and Investments

a. General Information

During the fiscal year ended September 30, 2005, MET adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires certain disclosures regarding policies and practices with respect to the risks associated with them. The interest rate risk, the credit risk, the custodial credit risk, the concentration of credit risk, and the foreign currency risk are discussed in the following paragraphs. The September 30, 2004 disclosure continues to be presented under GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

b. Deposits - Fiscal Year 2004-05

(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.

At the end of fiscal year 2004-05, the carrying amount of MET's deposits for Plan D was $3,630,981. The deposits were reflected in the accounts of the banks at $3,630,981. The September 30, 2005 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, therefore, are 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, 2005, MET had no foreign deposits.

c. Investments - Fiscal Year 2004-05

(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 market value of investments for Plan D by investment type and in total (in millions) at September 30, 2005:

	Market Value	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Investments:					
Commercial paper	$ 29.0	$ 29.0	$	$	$
U.S. Treasury bonds	12.7	1.9	10.3	.5	
U.S. agencies - Backed	2.0				2.0
U.S. agencies - Sponsored	93.6		19.9	47.9	25.8
Corporate bonds and notes	66.6		1.8	54.5	10.2
* Mutual funds	138.6				
Total Investments	$ 342.4	$ 30.8	$ 32.1	$ 102.8	$ 38.1
Less Investments Reported as Cash on Statement of Net Assets	(29.0)				
Total Investments	$ 313.4				
As Reported on the Statement of Net Assets					
Noncurrent restricted investments	$ 313.4				
Total Investments	$ 313.4				

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

(2) Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MET limits investments in commercial paper, at the time of purchase, to the top two ratings issued by two nationally recognized statistical rating organizations: 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 organizations: AAA, AA, A, and BBB from Standard & Poor's and Aaa, Aa, A, and

Baa from Moody's Investors Service. As of September 30, 2005, the market value and credit quality ratings of investments are as follows:

Investment	Market Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
CSX Transportation	$ 1,828,475	A	A1
Anheuser Busch	2,954,400	A+	A1
Burlington Northern	1,289,693	A+	Aa3
Cargill Inc.	4,989,840	A+	A2
General Electric Capital	18,065,969	AAA	Aaa
Pfizer Inc.	2,469,725	AAA	Aaa
Seariver Maritime	21,413,913	AAA	Aaa
General Motors Acceptance Corp.	8,480,822	BB	Ba1
Precision Castpart	5,063,800	BBB	Baa3
Federal Home Loan Mortgage Corp.	9,970,010	AAA	Aaa
Federal Farm Credit Banks	4,929,028	AAA	Aaa
Federal Home Loan Banks	78,685,902	AAA	Aaa
Government National Mortgage Association	2,036,391	Backed	Backed
United States Treasury	12,702,270	Backed	Backed
The Vanguard Group	138,557,303	Not rated	Not rated
Total Market Value	$ 313,437,541		

(3) Custodial Credit Risk

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

(4) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MET's investments with a single issuer. MET does not have a policy to limit concentration of credit risk. At September 30, 2005, MET had the following investments that represent 5% or more of total investments:

Investment	Market Value	Credit Quality Rating	
		Standard & Poor's	Moody's Investors Service
General Electric Capital	$18,065,969	AAA	Aaa
Seariver Maritime	$21,413,913	AAA	Aaa

(5) Foreign Currency Risk

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of September 30, 2005, MET had no foreign investments.

d. Deposits and Investments - Fiscal Year 2003-04

The following is a summary of deposits and investments at September 30, 2004:

(1) Deposits

At the end of fiscal year 2003-04, the carrying amount of MET's deposits for Plan D was $3,520,693. The deposits were reflected in the accounts of the banks at $3,520,693. The September 30, 2004 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, accordingly, classified in GASB credit risk category 1.

(2) Investments

The following table shows the carrying amounts and market values of investments for Plan D by investment type and in total (in millions) at September 30, 2004:

Investments	GASB Credit Risk Category 1	2	3	Not Categorized	Total Carrying Value	Market Value
Commercial paper	$ 54.3	$	$	$	$ 54.3	$ 54.3
Government securities	88.6				88.6	88.6
Corporate bonds and notes	68.6				68.6	68.6
Mutual funds				63.1	63.1	63.1
Total Investments	$ 211.5	$ 0	$ 0	$ 63.1	$ 274.6	$ 274.6
Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets					(54.3)	
Total Investments Per Statement of Net Assets					$ 220.3	

As Reported on Statement of Net Assets	
Cash and cash equivalents (net of deposits, see Note 3d(1))	$ 54.3
Noncurrent investments	220.3
Total Investments	$ 274.6

Note 4 Tuition Contracts Receivable

The following table summarizes tuition contracts receivable for monthly purchase contracts as of September 30:

	2005	2004
Tuition contracts receivable	$ 69,567,427	$ 64,498,679
Present value discount	(15,218,470)	(11,331,126)
Net tuition contracts receivable	$ 54,348,957	$ 53,167,553

Note 5 Tuition Benefits Payable

The standardized measurement of the total tuition benefits obligation of MET is the actuarial present value of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts. The following table shows the total tuition benefits obligations of MET as of September 30:

	2005	2004
Market value of total assets	$ 400,796,160	$ 331,568,463
Actuarial present value of future benefits payable and expenses	$ 445,133,146	$ 367,431,042
Net assets in excess of tuition benefits obligation	$ (44,336,986)	$ (35,862,579)
Net assets as a percentage of tuition benefits obligation	90%	90%

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

(1) The discount rate applied to expected future cash flows to determine present value was 7.25%. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

(2) For fiscal year 2004-05, the projected tuition increase was 7.00% compounded annually for the next five years and 7.30% for the balance of the period. The MET Board of Directors continued with a two-tier formula for adjusting the tuition increase assumption.

The short-term increase assumption of 7.00% (five years through 2011) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long-term tuition increase assumption of 7.30%. The assumptions were unchanged from the fiscal year 2003-04 assumptions.

(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 Plan D:

	Fiscal Years				
	2004-05	2003-04	2002-03	2001-02	2000-01
Tuition increase	7.00%	7.00%	7.00%	5.84%	5.71%
Tuition increase - long-term	7.30%	7.30%	7.30%	7.30%	7.30%
Present value discount rate	7.25%	7.25%	8.10%	7.00%	7.00%

The following summarizes the tuition benefits payable as of and for the fiscal years ended September 30, 2005 and September 30, 2004:

Balance at October 1, 2003	$ 283,451,984
Expense provision	87,808,580
Payments	(3,829,522)
Balance at September 30, 2004	$ 367,431,042
Expense provision	82,885,548
Payments	(5,183,444)
Balance at September 30, 2005	$ 445,133,146

The amounts due within one year for the fiscal years ended September 30, 2005 and September 30, 2004 are $6,000,000 and $4,000,000, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

Note 6 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 tax exemption is scheduled to expire in 2010.

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 qualified state 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 Management and Budget.

Note 8 Pension Plans

MET employees are State classified employees who are covered by the State Employees' Retirement System plans. Detail and data regarding the plan 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 *State of Michigan Comprehensive Annual Financial Report* and the plans' detailed financial reports, issued by the Office of Retirement Services, Department of Management and Budget.

"MET has been beneficial in many different ways. Most importantly, it is comforting to know my tuition is set. I can focus my energy on my studies and the plans I have to own my own business."

Anna Packard, Beneficiary

Cleary University

"Both of our students attended a Michigan public university and tuition was worry free."

Joe and Dona Kyle

Goodrich, MI

"This is my second child using MET and it is by far the best investment I have ever made ... working with people who are truly interested in making it work."

Patrick C. Alguire, MD

Doyleston, PA

(former Michigan Resident)

Michigan Department of Treasury
2775 (Rev. 3-06)

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):

☐ Purchaser ☐ Beneficiary (student) ☐ 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 a Beneficiary under 18 years of age.

Appointee Signature	Date

MAIL TO:
Michigan Education Trust
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