State of Michigan 401K Plan

Financial Report
September 30, 2013

State of Michigan 401K Plan

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INDEPENDENT AUDITOR'S REPORT

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

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

John E. Nixon, C.P.A., Director
Department of Technology, Management, and Budget
and
Mr. Phillip J. Stoddard, Director
Office of Retirement Services

Report on the Financial Statements
We have audited the accompanying financial statements of the State of Michigan 401K Plan as of and for the fiscal year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

John E. Nixon, C.P.A., Director
Mr. Phillip J. Stoddard, Director
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Opinion
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net position of the State of Michigan 401K Plan as of September 30, 2013 and the changes in net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the financial statements present only the State of Michigan 401K Plan and do not purport to, and do not, present fairly the financial position of the State of Michigan or its pension (and other employee benefit) trust funds as of September 30, 2013 and the changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents our discussion and analysis of the State of Michigan 401K Plan's (the Plan's) financial performance and provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2013, and September 30, 2012. This section should be read in conjunction with the Plan's basic financial statements.

Using This Annual Financial Report

This annual financial report consists of two parts: (1) management's discussion and analysis (this section) and (2) the Plan's basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and prior year:

	Fiscal Years Ended September 30	
	2013	2012
Plan Net Position	$ 4,113,774,047	$ 3,554,739,043
Net investment gain (loss)	$ 492,030,715	$ 500,943,634
Contributions - Employees	155,596,776	145,546,154
Contributions - Employers	149,655,274	116,358,114
Transfers from other plans	250,652	2,567,605
Contributions - Transfers from other systems	16,443,787	6,824,154
Benefits paid	(103,189,841)	(92,174,834)
Refunds and payments to other systems	(142,212,154)	(111,246,001)
Other income and expenses - net	(9,540,205)	(10,070,866)
Net Increase (Decrease) in Plan Net Position	$ 559,035,004	$ 558,747,960

Overall Fund Structure and Objectives

The Plan was established by the Civil Service Commission in 1985 as a 401(k) deferred compensation plan and amended in March 1997 to implement a defined contribution component as a means for State employees to save for retirement. Employees of the State of Michigan are eligible to participate in the Plan as of the first day of employment and may voluntarily contribute a portion of their compensation up to the established Internal Revenue Code limits.

The Plan was amended in fiscal year 2009-10 to expand the definition of employer to include Michigan public school reporting units and participants to include members of the Michigan Public School Employees' Retirement System (MPSERS) hired on or after July 1, 2010. These participants are offered the pension plus plan that includes both defined benefit and defined contribution retirement benefits. The defined benefit component is accounted for in MPSERS. For the defined contribution component, participant contributions are accounted for in the State of Michigan 457 Plan and employer contributions are accounted for in the State of Michigan 401K Plan as specified in the Plan Documents.

Effective December 15, 2011, Acts 264 and 265, P.A. 2011, amended the State Employees' Retirement Act (Act 240, P.A. 1943) and the Public Employee Retirement Health Care Funding Act (Act 77, P.A. 2010), respectively. The change provided for a refund of the 3% member contributions withheld under Act 185, P.A. 2010, and gave employees the option to contribute all or a portion of their refunds into the State of Michigan 401K Plan or 457 Plan. This amendment also provided existing defined contribution retirement plan participants with the option to retain the current retiree health insurance plan or to choose a portable personal healthcare fund, which may be used to pay healthcare expenses in retirement. The defined contribution plan participants who elected to switch to a personal healthcare fund would monetize existing years of service for deposit into the State of Michigan 401K Plan or 457 Plan and would receive an employer match of up to 2% of future compensation. The amendment also eliminated the retiree health insurance plan for employees hired on or after January 1, 2012 and replaced it with a portable personal healthcare fund in which employees receive an employer match of up to 2% of compensation that is deposited into the State of Michigan 401K Plan or 457 Plan.

During fiscal year 2011-12, an interlocal agreement between the Education Achievement Authority (EAA) and the Department of Technology, Management, and Budget allowed EAA employees to participate in the State of Michigan 401K Plan and 457 Plan.

Effective September 4, 2012, Act 300, P.A. 2012, provided public school employees with options on future retirement pension benefits. Existing defined benefit participants could elect to freeze pension benefits earned to date and move to the defined contribution plan for future years of service. Employees hired on or after September 4, 2012 could elect the defined contribution plan instead of the current pension plus plan.

Asset Allocation

All participants have the ability to direct the investments of their accounts under the Plan, in accordance with the investment choices as are made available and those policies or procedures as are determined by the trustee and the administration from time to time. The Plan has no control over investment decisions made by the participants. Plan assets may be invested and reinvested in various instruments as deemed appropriate by the trustee and Plan management. Several investment tiers have been developed and made available to participants. A summary of the types of investments is listed in Note 4.

Investment Results

During 2013, investors have been preoccupied with the timing and pace of tapering the reduction of the U.S. Federal Reserve's $85 billion per month bond-buying effort. The economic data flow, while mixed, suggested a growing economy. Gross domestic product (GDP) growth for the second quarter came in at 2.5%, well ahead of the first quarter's 1.1% rate and in excess of estimates.

In its new fiscal year, Congress was unable to reach an accord on legislation to fund the government. While a relatively brief shutdown had only a minor impact on the real economy, it highlighted the rancor in our nation's capital and calls into question the ability of lawmakers to address the far more impactful debt limit which has reached the $16.7 trillion debt ceiling.

Europe is fearful of the impact of a potential default by its most important trading partner. The European Central Bank maintained its benchmark lending rate at a record-low 0.5%. Inflation fell to a more than three-year low in September. The euro zone returned to expansion in the second quarter after a six-quarter recession while the final annualized GDP growth came in at 1.2% and more recent data confirmed a slight economic momentum.

A more pronounced resurgence can be found in Japan where economic growth for the second quarter was 3.8%. This represents the third consecutive quarter of GDP growth for the country. Japanese consumer prices in August rose at the fastest pace in five years. There is a planned 2014 increase in the country's sales tax to 8% from 5% which is intended to address Japan's 1 quadrillion yen debt load. Of this new tax revenue, 75% will be pumped back into the economy via a new stimulus program.

China's second quarter GDP growth of 7.5% was down from the first quarter's 7.7% expansion. Beijing has taken a relatively light-handed approach during this period of relatively sluggish growth as it attempts to transition the economy for long-term success. In the latest example of its commitment to structural reform, the government established a free-trade zone in Shanghai that it intends to use as an incubator for potential nationwide reforms.

U.S. stock markets grew choppy in the third quarter after a very strong first half but were still able to deliver stout returns for the period. NASDAQ was the most robust, gaining 10.8% year-to date through the third quarter. The S&P 500 gained 5.2% and the Dow Jones Industrial Average moved up by a modest 1.5%. Small caps outperformed the mid- and large-cap stocks by a large margin while growth outperformed value across the capitalization spectrum. The international developed markets rebounded from a negative second quarter to outpace the US exchanged in the third.

Treasury yields sold off for most of the quarter in anticipation of a September taper, only to rally once the U.S. Federal Reserve announced it would maintain its bond-buying program at full strength. While the Fed will eventually begin to taper, we believe it will be slow to remove monetary stimulus in response to a strengthening economy. Market analysts believe it will unwind its zero interest rate policy at a very measured pace.

Combined, that means extremely accommodative policy for years to come. Fixed income returns ultimately will depend on the market’s judgment of whether quantitative easing has succeeded in creating real economic strength. Given this environment, spread assets may perform well and security selection will be increasingly important given the valuations of financial assets.

Contacting Management

This report is designed to provide the retirement board, Plan participants, taxpayers, investors, and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Position

As of September 30, 2013

	State of Michigan Defined Contribution Retirement Fund	State of Michigan 401K Deferred Compensation Fund	Public School Defined Contribution Fund	Education Achievement Authority Defined Contribution Fund	Total
Assets					
Equity in Common Cash	$ 425,316	$ 882,449	$ 86,465		$ 1,394,230
Participant-directed investments,					
at fair value/contract value (Note 4):					
Stable Value Fund	157,295,249	351,671,735	10,593	$ 143	508,977,720
ING Small Cap Growth Equity Fund	74,650,741	56,234,507	22,330	966	130,908,544
Mutual funds	599,334,724	567,282,844	214,932	6,502	1,166,839,002
Common trust funds	1,235,888,843	692,313,632	27,217,747	1,654,519	1,957,074,741
Tier III investments	56,419,040	48,378,350	3,541		104,800,931
Participant loans	171,693,653	70,670,054			242,363,707
Other receivable	378,184	246,483	1,473,304		2,097,971
Total assets	$ 2,296,085,750	$ 1,787,680,054	$ 29,028,912	$ 1,662,130	$ 4,114,456,846
Liabilities					
Accounts Payable		$ 682,799			$ 682,799
Total liabilities	$ 0	$ 682,799	$ 0	$ 0	$ 682,799
Plan Net Position	$ 2,296,085,750	$ 1,786,997,255	$ 29,028,912	$ 1,662,130	$ 4,113,774,047

The accompanying notes are an integral part of the financial statement

Statement of Changes in Plan Net Position

As of September 30, 2013

	State of Michigan Defined Contribution Retirement Fund	State of Michigan 401K Deferred Compensation Fund	Public School Defined Contribution Fund	Education Achievement Authority Defined Contribution Fund	Total
Additions to Net Position					
Investment income (loss):					
Interest and dividends	$ 24,506,546	$ 25,787,594	$ 2,231	$ 16	$ 50,296,387
Net appreciation (depreciation) in fair value of investments	250,378,843	189,459,921	1,778,836	116,728	441,734,328
Total investment income (loss)	$ 274,885,389	$ 215,247,515	$ 1,781,067	$ 116,744	$ 492,030,715
Contributions:					
Employees	$ 103,760,392	$ 51,836,384			$ 155,596,776
Employers	132,206,368		15,954,532	1,494,374	149,655,274
Transfers from other plans	232,325	18,327			250,652
Transfers from other systems	7,403,583	926,161	8,108,693	5,350	16,443,787
Total contributions	$ 243,602,668	$ 52,780,872	$ 24,063,225	$ 1,499,724	$ 321,946,489
Miscellaneous income	$ 780,861	$ 626,346	$ 158,550		$ 1,565,757
Total additions	$ 519,268,918	$ 268,654,733	$ 26,002,842	$ 1,616,468	$ 815,542,961
Deductions from Net Position					
Benefits paid to participants	$ 58,837,116	$ 44,171,219	$ 181,506		$ 103,189,841
Administrative and investment expenses	5,794,494	4,103,219	944,420	13,177	10,855,310
Transfers to other plans	18,327	232,325			250,652
Refunds and payments to other systems	64,983,666	77,208,773	19,715		142,212,154
Total deductions	$ 129,633,603	$ 125,715,536	$ 1,145,641	$ 13,177	$ 256,507,957
Net increase (Decrease)	$ 389,635,315	$ 142,939,197	$ 24,857,201	$ 1,603,291	$ 559,035,004
Plan Net Position					
Beginning of fiscal year	$ 1,914,693,494	$ 1,635,814,999	$ 4,171,711	$ 58,839	$ 3,554,739,043
Prior period adjustments (Note 3)	(8,243,059)	8,243,059			
Beginning of fiscal year - Restated	$ 1,906,450,435	$ 1,644,058,058	$ 4,171,711	$ 58,839	$ 3,554,739,043
End of fiscal year	$ 2,296,085,750	$ 1,786,997,255	$ 29,028,912	$ 1,662,130	$ 4,113,774,047

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of Michigan 401K Plan is a deferred compensation fund and a defined contribution retirement fund sponsored by the State of Michigan. The Plan is considered part of the State and is included in the *State of Michigan Comprehensive Annual Financial Report* as a pension (and other employee benefit) trust fund.

The Plan covers employees of the State of Michigan; employees of the Michigan public school reporting units hired on or after July 1, 2010; and employees of the Education Achievement Authority (EAA). Act 264, P.A. 2011, established a Personal Healthcare Fund within the Plan for State employees, which can be used to pay healthcare expenses in retirement.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements present only the State of Michigan 401K Plan. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan as a whole or its pension (and other postemployment benefit) trust funds in conformity with accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The Plan uses the economic resources measurement focus and the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Investments

Investments in the ING Small Cap Growth Equity Fund, mutual funds, common trust funds, and Tier III investments are stated at fair value based on quoted market prices. The Stable Value Fund is stated at contract value (see Note 4 for additional information). Participant loans are stated at face value, which approximates market value. Investments in common trust funds are managed by State Street Global Advisors (SSgA) and Rainier Investment Management, similar to mutual funds though not registered like mutual funds. The value of the Plan's position in the common cash fund is equivalent to the fair value of the common cash fund shares.

NOTE 2 – GENERAL DESCRIPTION OF THE PLAN

The following description provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions. The Plan Document is available on the State of Michigan Office of Retirement Services' Web site.

General

The Plan was established by the Civil Service Commission in 1985 as a 401K deferred compensation plan. The Plan was amended as of March 31, 1997 to implement a defined contribution retirement fund. The Plan Document was last amended and restated effective January 1, 2012 to incorporate all amendments, update changes required by law, and add new sections for changes in provisions made during the Plan year. As of September 30, 2013, the Plan included 42,882 State of Michigan participants, 63,908 Michigan public school participants, and 509 EAA participants.

Eligibility

Employees of the State of Michigan are eligible to participate in the 401K deferred compensation fund on the first day of employment. State of Michigan employees hired on or after March 31, 1997, public school employees hired on or after July 1, 2010, and EAA employees are eligible to participate in the defined contribution retirement fund on the first day of employment. Also, State of Michigan employees hired prior to March 31, 1997 could have become eligible to participate in the defined contribution retirement fund if they had irrevocably elected to forgo participation in the State's defined benefit pension plans.

Contributions

In accordance with Section 401(k) of the Internal Revenue Code, effective January 1, 1987, the Plan limits the amount of an individual's annual contribution.

Also, for State of Michigan employees participating in the defined contribution retirement fund and who are not covered by the State's defined benefit pension plans, the Plan provides for the State of Michigan to make a mandatory contribution of 4.0% plus a matching contribution of up to 3.0% of each participant's compensation. The State does not make matching contributions for employees in the deferred compensation component of the Plan.

In addition, the Plan provides for public school reporting units to make a mandatory contribution of 50% of eligible participants' voluntary contributions up to 1%. The Plan also provides for the EAA to make a mandatory contribution of 100% of participants' voluntary contributions up to 7.5%.

Finally, the Plan provides for the Personal Healthcare Fund for State of Michigan employees hired on or after January 1, 2012 and Public School employees hired on or after September 4, 2012 to account for employee contributions and an employer match of up to 2% of compensation. State of Michigan employees hired prior to January 1, 2012 and who opted out of the graded premium benefit receive an employer match of up to 2% of future compensation plus a monetized amount for existing years of service upon terminating employment. Public School employees hired prior to September 4,2012 and who opted out of the graded premium receive an employer match of up to 2% of future compensation.

Contributions from Other Systems

Active employees may roll over money from another 401k plan, 401a or 403b plans, or from traditional individual retirement accounts (IRAs) into their account in the Plan. Participants may withdraw funds rolled into the Plan at any time.

Participant Account

Each participant's account is credited with his or her contributions; the employer contributions, if applicable; and an allocation of the Plan's earnings. Allocations are based on the participant's account balance to reflect the effect of income or losses from the particular investments. The benefit to which a participant is entitled is limited to the benefit that can be provided from the participant's account.

Vesting

Participants are 100% vested in their contributions and related earnings or losses at all times. State of Michigan participants are vested in their employer contributions and related earnings or losses based on years of service over a four-year period. A participant is 100% vested after four years of service credit (a year of service is defined as 2,080 hours). Public school and EAA participants vest in their employer contributions based on years of service.

Loans to Participants

State of Michigan participants may borrow from their vested account balances of the Plan in accordance with the loan policy statement. Loan amounts can range from a minimum of $1,000 to a maximum of $50,000. Loans must be repaid within five years, with the exception of real estate loans, which may be extended beyond five years. The interest rate on loans reflects a rate equal to the prime interest rate on the first day of the prior month. Public school and EAA participants were not eligible to borrow from their vested account during fiscal year 2012-13.

Loans to Participants – Defaulted

Defaulted loans are loans resulting from the failure of a participant to make the required loan repayments on an outstanding loan. These loans are considered a distribution to the participant for which a federal 1099 tax form is issued. During fiscal years 2012-13 defaulted loans totaled $8.5 million for participants in the State of Michigan 401K Defined Contribution Retirement Fund and $4.0 million for participants in the State of Michigan 401K Deferred Compensation Fund.

Payment of Benefits

Participants may withdraw their funds upon leaving employment. Withdrawal of participant funds may be by lump sum, monthly payments, annual payments, or rollovers to other qualified plans. Payments may occur over a period not to exceed life expectancy from the date the payments begin. In-service benefit payments are permitted for various reasons as outlined in the Plan Document.

Refunds and Payments to Other Systems

Upon leaving employment, participants may roll over all or a portion of their account balances to other qualified plans or use all or a portion of their account balances to purchase preapproved service credit in the State's defined benefit pension plans.

In fiscal year 2012-13, $2.3 million of employer contributions was transferred to the Michigan State Employees' Retirement System (MSERS) to refund the employer contributions previously made by the State for participants that were incorrectly placed in the State of Michigan Defined Contribution Fund. These participants were moved to the State of Michigan 401K Deferred Compensation Fund.

Forfeited Accounts

Forfeited nonvested accounts totaled $5.7 million at September 30, 2013. Section 401(a)(2) of the Internal Revenue Code restricts the State from recapturing any contributions made to the Plan. Accordingly, as specified in the Plan Document, these accounts are to be used to offset future State contributions and to pay administrative expenses of the Plan.

Other Postemployment Benefits (OPEB)

OPEB for State employees defined contribution retirement plan members is currently included in the actuarial valuation provided by MSERS and reported in the MSERS financial statements. OPEB for public school pension plus employees is currently included in the actuarial valuation provided by Michigan Public School Employees' Retirement System (MPSERS) and reported in the MPSERS financial statements. For more information regarding these benefits, please refer to the separately issued retirement system comprehensive annual financial reports.

Tax Status

The U.S. Department of Treasury made a determination in March 1986 that the Plan constitutes a qualified trust under Section 401(a) of the Internal Revenue Code and is, therefore, exempt from federal income tax. Although the Plan has been subsequently amended and restated, management believes that the Plan continues to operate as a qualified trust.

NOTE 3 – RESTATEMENT

During fiscal year 2011-12, the accounts of some participants of the State of Michigan 401K Deferred Compensation Fund were incorrectly reported in the State of Michigan Defined Contribution Fund. As a result, fiscal year 2012-13 beginning net position has been restated, decreasing the State of Michigan Defined Contribution Retirement Fund beginning net position by $8.2 million and increasing the State of Michigan 401K Deferred Compensation Retirement Fund beginning net position.

NOTE 4 – INVESTMENTS

All investments are participant directed. The mutual funds are registered with the Securities and Exchange Commission and guaranteed investment contracts (GICs) are regulated by state insurance departments. Three investment tiers have been developed to classify the investments, available to participants, based upon the general investment strategy. Tier I contains funds which have a passive investment strategy. These investments are managed to mirror investment performance of an established index. Tier II contains funds which have an active investment strategy. These investments are managed actively by an investment advisor using a specific fund investment objective. Tier III contains accounts with investments which are self-directed by the participant. These are not managed passively or actively by anyone other than the participant. A brief summary of the types of investments included in each tier follows:

Tier I - Stable Value Fund and common trust funds that include SSgA Yield Enhanced STIF (discontinued during August, 2013 and all investment balances were transferred to the SSgA Cash Series Treasury Fund), SSgA Cash Series Treasury Fund – Class G, SSgA Bond Market Index Fund, SSgA S&P 500 Index Fund, SSgA S&P Mid Cap Index Fund, SSgA Russell 2000 Index Fund, SSgA Global All Cap Equity ex-U.S. Index Fund, SSgA Target Retirement Income Fund, and SSgA Target Retirement Funds ranging in retirement dates from 2010 through 2055.

Tier II - ING Small Cap Growth Equity Fund, Rainier Large Cap Growth Equity Fund (a common trust fund), and mutual funds that include Dodge & Cox Stock Fund, Oakmark Equity and Income Fund, T. Rowe Price Mid Cap Value Fund, Ridgeworth Small Cap Value Equity Fund, American Funds EuroPacific Growth Fund, Artisan Mid Cap Fund, PIMCO Total Return Fund, and SSgA Emerging Markets Fund.

Tier III - Individual stocks and bonds and thousands of mutual funds (load, no-load, and no-fee/no-load) from a multitude of fund families are available through the Plan's third party administrator. The various types of investments with Tier III are self-managed by the participants and are not separately classified by type of investment by the Plan's third party administrator. These self-managed stocks, bonds, and mutual funds are presented on the statement of plan net position within the Tier III investments.

Investment Risk:

The Plan's investments are subject to several types of risk. As of September 30, 2013, the Plan did not have any investments subject to custodial credit risk or concentration of credit risk. Other types of risk are examined in more detail below:

a. Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. As of September 30, 2013 the weighted average maturities of investments subject to interest rate risk are shown below:

Investment Type	Fair Value/ Contract Value	Weighted Average Maturity (Years)
Stable Value Fund:		
Synthetic contracts*	$ 471,534,898	3.79
SSgA STIF*	$ 37,442,821	0.00
Common trust funds:		
SSgA Bond Market Index Fund	$ 281,676,821	7.41
SSgA Cash Series Treasury Fund - Class G	$ 176,507,122	0.12
Mutual funds:		
PIMCO Total Return Fund	$ 107,397,165	5.2

* These investements are reported at contract value as disclosed in Note 1.

b. Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligation. The Plan has an investment policy that limits its investment choices. The investment choices offered to participants are defined by tiers as described in the preceding paragraphs. As of September 30, 2013 the credit quality ratings of debt securities subject to credit risk (other than U.S. government securities) are shown on the following page:

Investment Type	Fair Value/ Contract Value	Rating	Rating Organization
Stable Value Fund:			
Synthetic contracts*	$ 471,534,898	BBB to AAA	S&P
SSgA STIF*	$ 37,442,821	A1/P1	Moody's
Common trust funds:			
SSgA Bond Market Index Fund	$ 281,676,821	Below Baa to Aaa	Moody's
SSgA Cash Series Treasury Fund - Class G	$ 176,507,122	A-1+/P-1	Moody's
Mutual funds:			
PIMCO Total Return Fund	$ 107,397,165	Below B to AAA	S&P

* These investements are reported at contract value as disclosed in Note 1.

c. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign currency rates will adversely affect the fair value of an investment. The Plan does not have an investment policy addressing foreign currency risk. As of September 30, 2013 the following investments (other than U.S. government securities) were subject to foreign currency risk:

Investment Type	Foreign Currency	Fair Value
Mutual funds:		
American Funds EuroPacific Growth Fund	Various	$ 282,864,687
SSgA Emerging Markets Fund	Various	$ 90,612,306
PIMCO Total Return Fund	Various	$ 107,397,165
SSgA Global All Cap Equity ex-U.S. Index Fund	Various	$ 142,509,675

Fully Benefit Responsive Synthetic Guaranteed Investment Contract (SGIC):

As part of the Stable Value Fund, the Plan uses SGIC investment derivatives that invest in a portfolio of underlying securities and a benefit responsive wrap contract. The wrap contract produces a floating rate of return that is adjusted periodically, but not below zero, to reflect the underlying investment portfolio and generally provide for participant withdrawals at contract value (principal plus accrued interest). As of September 30, 2013, the fair values of SGIC are as follows:

	Fair Value
SGIC Components:	
Underlying investments	$ 487,133,260
Wrap contract	*
Total	$ 487,133,260

* The market valude of the SGIC's underlying investments was higher than the SGIC's contract value; therefore, the wrap contract does not have a value.

GLOSSARY

Glossary of Acronyms and Terms

DTMB	Department of Technology, Management, and Budget.
Education Achievement Authority (EAA)	A Michigan Statewide school system for low-performing schools.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly, in all material respects, in conformity with the disclosed basis of accounting.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
GICs	guaranteed investment contracts.
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

material misstatement	A misstatement in the financial statements that causes the statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
MFS	MFS Investment Management.
Moody's	Moody's Investors Service, Inc. A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
MPSERS	Michigan Public School Employees' Retirement System.
MSERS	Michigan State Employees' Retirement System.
OPEB	other postemployment benefits.
other noncompliance	Violations of contracts or grant agreements that are not material to the financial statements but should be communicated to management in accordance with *Government Auditing Standards*. Other noncompliance also includes violations of laws, regulations, contracts, or grant agreements; fraud; abuse; or other internal control deficiencies that may be communicated to management in accordance with *Government Auditing Standards*.
PIMCO	Pacific Investment Management Company, LLC.
S&P	Standard & Poor's. A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
SGIC	synthetic guaranteed investment contract.
SSgA	State Street Global Advisors.
STIF	short-term investment fund.

unqualified opinion An auditor's opinion in which the auditor states that the financial statements presenting the basic financial information of the audited entity are fairly presented in conformity with the disclosed basis of accounting.