<u>**Michigan Public School Employees' Retirement System**</u>
a Pension Trust Fund of the State of Michigan

Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2006

M P S E R S

Prepared by:
Financial Services
For
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
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INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan Public School Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Public Pension Standards Award

PPCC

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Michigan Office of Retirement Services

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

Letter of Transmittal

Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517- 322-5103
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STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 8, 2006

The Honorable Jennifer M. Granholm
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Public School Employees' Retirement System (System) for fiscal year 2006.

INTRODUCTION TO REPORT

The System was established by legislation under Public Act 136 of 1945, and is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all public school employees. The services performed by the staff provide benefits to members.

Responsibility

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

Internal Control Structure

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

Letter of Transmittal (Continued)

Independent Auditors

Andrews Hooper & Pavlik P.L.C., independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by The Segal Company for the fiscal year ended September 30, 2005. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

Report

The 2006 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System, and a schedule of participating employers.

Management's Discussion and Analysis (MD&A)

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

In accordance with Public Act 300 of 1980, on October 31, 1980, the Public School Employees' Chapter I Retirement Fund merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement System. Public Acts 136 of 1945 and 259 of 1974, respectively, created the two original funds. A twelve-member board governs administrative policy.

Employer contributions and investment earnings provide financing for the System. Under Public Act 91 of 1985, employees may contribute additional amounts into a "member investment plan."

ECONOMIC CONDITIONS AND OUTLOOK

Despite challenging economic times, the System continues to show strong performance.

Investments

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 12.8%. For the last five years, the System has experienced an annualized rate of return of 8.0%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

Letter of Transmittal (Continued)

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe that the accounting and administrative internal controls established by the System provide reasonable assurance the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of the financial records for preparing financial statements, and in maintaining accountability for its assets.

Funding

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System used the valuation from the previous fiscal year for this report. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement Number 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2005. The actuarial value of the assets and actuarial accrued liability were $38.2 billion and $48.2 billion, respectively, resulting in a funded ratio of 79.3% at September 30, 2005. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

Postemployment Benefits

The System also administers the postemployment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed as of September 30, 2005, to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately $14.0 billion and the employer contribution for health care benefits would be 13.4% of payroll.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to be proactive in identifying and meeting the needs of our customers in a timely and cost-effective manner. Moving forward with our Vision ORS technology project, we implemented a number of solutions that streamline internal process functions, thereby freeing staff to provide more personal one-on-one interactions with customers. Our greatest gains this year came when we converted from our old pension system (CPP) to a new, leading-edge pension payment processing system (Clarety). The new system permits staff access to up-to-date customer information all in a single place and enables us to process pension payments daily instead of once a month, which allows initial pension payments to be issued faster. Other improvements are highlighted below.

Focus on Our Customer

Planning and saving for retirement early in your career received significant emphasis as we interacted with our customers. We encouraged members to take a serious look at their retirement plans to help them be better prepared for a more secure and fulfilling experience when it is time to retire. We used a variety of easy to understand resources to deliver our messages. Building on our existing Life Stages retirement publications, we added materials to serve a wider range of customer needs. We included printed materials on leaving employment before retirement, disability benefits, and information needed after retirement. We redesigned our websites using a life stages approach, making it easier for customers to find the information they need, regardless of whether they're just starting their career or nearing retirement. For those contemplating the purchase of additional service credit, we created two online video vignettes they could watch at any time to learn about service credit and what they would need to do to purchase time.

Preretirement meetings across the state continued to be offered to those nearing retirement eligibility, with 6,589 attending. Those who attended one of these meetings could schedule a personalized telephone appointment to address any specific questions or concerns they might have before retiring.

Letter of Transmittal (Continued)

Most of our customers still view the telephone as their primary means of communicating; this year our Customer Service telephone center answered 216,650 calls. A growing number of customers have found email correspondence better meets their busy lifestyles as demonstrated by the 14,106 emails we responded to this year. Our Customer Service staff also provided face-to-face interaction with 5,387 individuals who visited our main office. Our Detroit office staff met with 2,903 customers who either scheduled an appointment or walked in with questions and answered 5,606 telephone calls with customers.

Our customer base extends to employers also, and this year we continued enhancing these relationships through regular communications and updated support materials. In addition to our ongoing Administrative Seminar programs, we periodically sent important email updates to our employer contacts, provided regular newsworthy articles and technical tips in the *Retirement Times,* our online employer newsletter, and we distributed important updates to all employer contacts through our online Message Board. The reference materials school personnel need to accurately report employee information received a complete overhaul. All of the employer publications were consolidated into a single comprehensive, user-friendly *Reporting Instruction Manual (RIM)* that can be accessed online from the employer website. Improved search capabilities and embedded hyperlinks make it easy for employers to navigate the new *RIM* and locate the specific information they need.

Staying in touch with our customers, whether they are active employees, pension recipients, or employers, is a priority. For retirees, the *Connections* newsletter, published twice a year, offers an annual financial report summary plus other pertinent information about retirement. Our ongoing surveys assist us in assessing our customers' needs and their level of satisfaction.

Continuously Improve Processes

For the last several years, we have invested substantial time and effort to transform ORS into a leading edge process-based organization. This year we celebrated some of our milestones – our on-line employer reporting and pay-period reporting process is fully implemented and stabilized, and we converted to our new pension payment processing system without incident. Both of these process enhancements are paying off through increased efficiencies and improved services to our external customers as well as our staff.

With the implementation of our new technology enhancements, our work processes are changing, which opens the door for other process improvements. Recognizing this opportunity, our reengineering team began assessing how six of our present processes, consisting of 47 tasks, function and then identified gaps to be resolved, efficiencies to be gained, and savings to reap.

ORS' influence is seen at the national level as well. Because of its reputation, ORS has provided leadership to the Board of National Sector Public Health Care Roundtable. This organization was instrumental in convincing Congress to include public sector health plans in the group eligible to receive the Medicare Part D subsidy. This subsidy is worth about $103 million annually to the State and the schools.

Promote a Positive Work Environment

Like many other progressive organizations, the need for change has become the norm rather than the exception. With the introduction of technology changes to our core processes, we needed to realign our organizational structure. Clear, straight-forward communications between managers and employees eased the transition.

Management has fostered an open, positive work environment where employees feel they are valued and appreciated. They are empathetic and supportive of others, generously giving to those in need, whether it's donating blood to the Red Cross, volunteering for Habitat for Humanity, or making contributions to United Way, the local food banks, troops stationed in Iraq, holiday giving trees, or a coworker experiencing personal hardships.

Management encourages employees to live out the values of Integrity, Inclusion, Excellence, and Teamwork. This year we instituted an awards program similar to DMB's annual Excellence Awards program to recognize individuals in the

Letter of Transmittal (Continued)

categories of Leadership, Innovation, Every Day Hero, Living the Values, and Customer Service. From this group of honorees, who were also nominated for the DMB Excellence Awards, a team of five ORS employees was honored with DMB's Innovator Award.

Optimize Technology

Since the recent implementation of our new technology we've identified other ways to enhance our operations. Imaging of current correspondence and documents expanded to include employer correspondence as well as member and retiree correspondence. We've also undertaken an extensive project to begin converting existing paper files to electronic images so staff can quickly access them with a few clicks of a mouse rather than waiting for a paper file to be pulled. As part of this conversion, we scanned 4,680,816 images this year, providing more electronic access to insurance information, death records, tax deferred payment agreements, and pending retiree documentation, and further reducing our reliance on paper documents.

Our Internet activity is expanding as we begin using it for video conferences for employers and pending retirees. This technology improves the reliability and quality of our video presentations. We continue to explore additional opportunities to deliver information to our customers in a fast, convenient, efficient way.

Future enhancements to our pension system continue to move forward. This year we completed the requirements gathering steps for web self service and automating the processing of our forms and letters by using bar coding to speed document handling and trigger work flow processes.

We've learned a number of lessons from our past Vision ORS implementation efforts, and we've used this knowledge to help avoid these pitfalls as we move forward. We're writing better requirements in the initial stages and doing extensive testing of processes before upgrading our system, which has paid off in much smoother program deployments.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for 15 consecutive years. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Public Pension Standards Award

The Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), awarded Michigan Office of Retirement Services (ORS) the Public Pension Standards Award for recognition of meeting professional standards for plan design and administration as set forth in the standards for fiscal year 2006. This is the third year ORS has achieved this distinction.

Letter of Transmittal (Continued)

Acknowledgements

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, the advisors and the many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable employers and plan members to better evaluate and understand the Michigan Public School Employees' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,

Lisa Webb Sharpe, Director
Department of Management and Budget

Phillip J. Stoddard, Acting Director
Office of Retirement Services

Introductory Section

Administrative Organization

Retirement Board Members*

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2008

William Lawson, Jr.
Retired Finance/Operations
Term Expires March 30, 2007

Lenore Croudy
Community College Trustee
Term Expires March 30, 2008

Diana Osborn, Chair
Active Non-Certified Support
Term Expires March 30, 2009

Gary Allen
Active Superintendent
Term Expires March 30, 2009

Marc Whitefield
General Public - Investments
Term Expires March 30, 2008

Richard Montcalm
Active Finance/Operations,
Non-Superintendent
Term Expires March 30, 2008

Edwin Martinson
Reporting Unit Board of
Control
Term Expires March 30, 2008

Martha Pichla
Active Classroom Teacher
Term Expires March 30, 2009

Jeffrey Hoffman
General Public -
Actuary/Health Insurance
Term Expires March 30, 2006

Gail Nugent
Retired Teacher
Term Expires March 30, 2006

Dr. Jeremy Hughes
Statutory Member
Representing State
Superintendent of Education

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuaries
Gabriel Roeder Smith & Co.
Alan Sonnanstine
Southfield, Michigan

The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Medical Advisors
Gabriel Roeder Smith & Co.
Southfield, Michigan

Investment Performance Measurement
State Street Corporation
State Street Analytics
Boston, MA

Administrative Organization (Continued)

Organization Chart

Department of Management & Budget
Lisa Webb Sharpe, Director

Department of Treasury *
Robert J. Kleine, State Treasurer

Bureau of Investments
Jacqueline M. Johnson, CFA, Director

Financial Services
Michael Gilliland, Acting Director

Fiscal Management Division
Patricia Lack, Director

Office of
Retirement Services
Phillip J. Stoddard, Acting Director

Operations
Laurie Hill, Acting Director

Customer Service
Laurie Hill

*** The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.**

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FINANCIAL SECTION

Financial Section

Independent Auditor's Report

ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Ms. Lisa Webb Sharpe, Director, Department of Management and Budget
Mr. Phillip Stoddard, Acting Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan Public School Employees' Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan Public School Employees' Retirement System, as of September 30, 2006 and 2005, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan Public School Employees' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Public School Employees' Retirement System, as of September 30, 2006 and 2005, and the changes in its financial status for the 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 8, 2006 on our consideration of the Michigan Public School Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 conjunction with this report in considering the results of our audit.

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • 517.706.0800 fax 517.706.0011 • www.ahpplc.com

Independent Auditor's Report (Continued)

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules are the responsibility of the Michigan Public School Employees' Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
December 8, 2006

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan Public School Employees' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2006. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2006 by $43.6 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2005, the funded ratio was approximately 79.3%.
- Revenues for the year were $7.2 billion, which is comprised of contributions of $2.3 billion and investment gains of $4.9 billion.
- Expenses increased over the prior year from $3.4 billion to $3.5 billion or 4.2%. Most of this increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statements of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 24) and *The Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 25*)*. These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress (page 43) and Schedule of Employer and Other Contributions (page 44) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2006, were $50.4 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $8.2 billion or 19.5% between fiscal years 2005 and 2006 primarily due to investment earnings and contributions exceeding deductions, and increased $3.2 billion or 8.2% between fiscal years 2004 and 2005, primarily due to increased investment earnings and contributions exceeding deductions.

Total liabilities as of September 30, 2006, were $6.8 billion and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities increased $4.5 billion or 193.1% between fiscal years 2005 and 2006 primarily due to a increase in obligations under securities lending, and increased $77.9 million or 3.5% between fiscal year 2004 and fiscal year 2005 due to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2006 by $43.6 billion. Total net assets held in trust for pension and health benefits increased $3.7 billion or 9.4% from the previous year, primarily due to investment earnings and contributions for the year exceeding total deductions to System net assets. This compares to fiscal year 2005, when net assets increased by $3.1 billion or 8.5% from the prior year.

Net Assets
(in thousands)

	2006	Increase/ (Decrease)	2005	Increase/ (Decrease)	2004
Assets					
Cash	$ 81,655	(0.9) %	$ 82,408	(47.5) %	$ 156,866
Receivables	569,167	37.3	414,609	(9.6)	458,557
Investments	49,775,568	19.3	41,708,921	8.6	38,399,775
Total Assets	50,426,390	19.5	42,205,938	8.2	39,015,198
Liabilities					
Warrants outstanding	5,785	(10.7)	6,481	(7.5)	7,006
Accounts payable and other accrued liabilities	83,339	(8.8)	91,343	32.8	68,797
Obligations under securities lending	6,711,645	201.9	2,222,790	2.6	2,166,910
Total Liabilities	6,800,769	193.1	2,320,614	3.5	2,242,713
Total Net Assets	$ 43,625,621	9.4 %	$ 39,885,324	8.5 %	$ 36,772,485

Management's Discussion and Analysis (Continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2006 totaled approximately $7.2 billion.

Total additions for fiscal year 2006 increased approximately $767.7 million or 11.9% from those of fiscal year 2005 due primarily to increased investment earnings. Total additions increased approximately $483.0 million or 8.1% from fiscal year 2004 to fiscal year 2005 due primarily to increased investment earnings. Total contributions increased between fiscal years 2005 and 2006 by $367.9 million or 19.3%, while investment income increased $399.3 million or 8.7%. Total contributions increased from fiscal year 2004 to fiscal year 2005 by $79.8 million or 4.4%, while investment income increased $403.2 million or 9.7% during that timeframe. The Investment Section of this report reviews the results of investment activity for fiscal year 2006.

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2006 were $3.5 billion, an increase of 4.2% over fiscal year 2005 expenses. Total deductions for fiscal year 2005 were $3.4 billion, which was an increase of 9.8% over fiscal year 2004 expenses.

The health, dental, and vision care expenses during the year decreased by $71.2 million or 10.1% from $706.0 million to $634.8 million during the fiscal year. This compares to an increase of $90.5 million or 14.7% from $615.5 million to $706.0 million between fiscal years 2004 and 2005. The payment of pension benefits increased by $203.3 million or 7.9% between fiscal years 2005 and 2006 and by $199.8 million or 8.5% from fiscal year 2004 to fiscal year 2005. In fiscal year 2006, the increase in pension benefit expenses resulted from an increase in retirees (5,457) and an increase in benefit payments to retirees. In fiscal year 2005, the increase in pension benefit expenses resulted from an increase in retirees (6,328) and an increase in benefit payments to retirees. Administrative expenses increased by $6.4 million or 8.5% between fiscal years 2005 and 2006, primarily due to an increase in personnel services and accounting expenses. Administrative expenses increased by $5.0 million or 7.1% between fiscal years 2004 and 2005 primarily due to an increase in personnel services and accounting expenses.

Management's Discussion and Analysis (Continued)

Changes in Plan Net Assets
(in millions)

	2006	Increase/ (Decrease)	2005	Increase/ (Decrease)	2004
Additions:					
Member Contributions	$ 590.4	37.1 %	$ 430.7	(15.4) %	$ 509.1
Employer Contributions	1,682.9	14.1	1,474.7	12.0	1,316.5
Other Governmental Contributions	- *	-	-	-	-
Net Investment Income (Loss)	4,968.6	8.7	4,569.3	9.7	4,166.1
Miscellaneous Income	0.5	100.0	-	(100.0)	0.03
Total Additions	7,242.4	11.9	6,474.7	8.1	5,991.7
Deductions:					
Pension Benefits	2,761.3	7.9	2,558.0	8.5	2,358.2
Health Care Benefits	634.8	(10.1)	706.0	14.7	615.5
Refunds and Transfers to Other Systems	24.1	7.6	22.4	21.1	18.5
Administrative Expenses	81.9	8.5	75.5	7.1	70.5
Total Deductions	3,502.1	4.2	3,361.9	9.8	3,062.7
Net Increase	3,740.3	20.2	3,112.8	6.3	2,929.0
Net Assets - Beginning of Year	39,885.3	8.5	36,772.5	8.7	33,843.4
Net Assets - End of Year	$ 43,625.6	9.4 %	$ 39,885.3	8.5 %	$ 36,772.4

* The amount represents less than $100,000.

Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced increases for 2006 and 2005 that preceded an increase for the prior year. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

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Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2006 and 2005

	September 30, 2006			September 30, 2005		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Equity in common cash	$ 80,357,839	$ 1,296,718	$ 81,654,557	$ 81,193,729	$ 1,214,267	$ 82,407,996
Receivables:						
Amounts due from employer	266,283,585	21,443	266,305,028	82,124,297	20,095	82,144,392
Amounts due from employer long term	301,654,065		301,654,065	332,159,770		332,159,770
Interest and dividends	1,188,726	19,182	1,207,908	299,921	4,485	304,406
Total receivables	569,126,376	40,625	569,167,001	414,583,988	24,580	414,608,568
Investments:						
Short term investment pools	1,157,408,825	18,676,875	1,176,085,700	1,370,605,330	20,497,645	1,391,102,975
Fixed income pools	6,938,206,663	111,960,454	7,050,167,117	6,411,195,226	95,880,557	6,507,075,783
Domestic equity pools	20,495,719,082	330,735,322	20,826,454,404	18,899,729,092	282,648,785	19,182,377,877
Real estate pool	3,193,943,571	51,540,029	3,245,483,600	2,914,822,160	43,591,680	2,958,413,840
Alternative investment pools	5,404,053,481	87,204,131	5,491,257,612	4,528,944,241	67,731,161	4,596,675,402
International equities pools	5,190,712,951	83,761,497	5,274,474,448	4,779,014,431	71,471,004	4,850,485,435
Cash collateral on loaned securities	6,605,060,680	106,584,544	6,711,645,224	2,190,037,542	32,752,398	2,222,789,940
Total investments	48,985,105,253	790,462,852	49,775,568,105	41,094,348,022	614,573,230	41,708,921,252
Total assets	49,634,589,468	791,800,195	50,426,389,663	41,590,125,739	615,812,077	42,205,937,816
Liabilities:						
Warrants outstanding	5,693,583	91,875	5,785,458	6,385,178	95,490	6,480,668
Accounts payable and other accrued liabilities	28,428,959	54,909,752	83,338,711	32,253,439	59,089,356	91,342,795
Obligations under securities lending	6,605,060,680	106,584,544	6,711,645,224	2,190,037,542	32,752,398	2,222,789,940
Total liabilities	6,639,183,222	161,586,171	6,800,769,393	2,228,676,159	91,937,244	2,320,613,403
Net Assets Held in Trust for Pension and Health Benefits*	$ 42,995,406,246	$ 630,214,024	$ 43,625,620,270	$ 39,361,449,580	$ 523,874,833	$ 39,885,324,413

*A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For Fiscal Years Ended September 30, 2006 and 2005

	September 30, 2006			September 30, 2005		
	Pension Plan	Health Plan	Total	Pension Plan	Heath Plan	Total
Additions:						
Contributions:						
Member contributions	$ 518,599,720	$ 71,813,553	$ 590,413,273	$ 368,240,837	$ 62,507,616	$ 430,748,453
Employer contributions:						
Colleges, universities and federal	69,385,887	59,030,437	128,416,324	61,409,578	56,392,438	117,802,016
School districts and other	926,546,538	627,899,121	1,554,445,659	712,868,200	643,974,305	1,356,842,505
Other governmental contributions	64,574		64,574			
Total contributions	1,514,596,719	758,743,111	2,273,339,830	1,142,518,615	762,874,359	1,905,392,974
Investment income (loss):						
Investment income (loss)	4,975,920,709		4,975,920,709	4,580,597,331		4,580,597,331
Interest income		41,909,987	41,909,987		38,718,254	38,718,254
Investment expenses:						
Real estate operating expenses	(325,681)		(325,681)	(517,603)		(517,603)
Other investment expenses	(54,782,035)		(54,782,035)	(52,583,598)		(52,583,598)
Securities lending activities:						
Securities lending income	156,767,001		156,767,001	56,948,500		56,948,500
Securities lending expenses	(150,871,583)		(150,871,583)	(53,845,116)		(53,845,116)
Net investment income (loss)	4,926,708,411	41,909,987	4,968,618,398	4,530,599,514	38,718,254	4,569,317,768
Transfers from other systems	2,647		2,647	15,051		15,051
Miscellaneous income	469,085		469,085	6,523		6,523
Total additions	6,441,776,862	800,653,098	7,242,429,960	5,673,139,703	801,592,613	6,474,732,316
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	2,761,292,217		2,761,292,217	2,558,017,710		2,558,017,710
Health benefits		565,261,409	565,261,409		641,616,478	641,616,478
Dental/vision benefits		69,550,438	69,550,438		64,367,305	64,367,305
Refunds of member contributions	23,903,822	42,370	23,946,192	22,061,718	192,144	22,253,862
Transfers to other systems	123,059		123,059	119,594		119,594
Administrative expenses	22,501,098	59,459,690	81,960,788	19,997,954	55,520,031	75,517,985
Total deductions	2,807,820,196	694,313,907	3,502,134,103	2,600,196,976	761,695,958	3,361,892,934
Net Increase	3,633,956,666	106,339,191	3,740,295,857	3,072,942,727	39,896,655	3,112,839,382
Net Assets Held in Trust for Pension and Health Benefits:						
Beginning of Year	39,361,449,580	523,874,833	39,885,324,413	36,288,506,853	483,978,178	36,772,485,031
End of Year*	$ 42,995,406,246	$ 630,214,024	$ 43,625,620,270	$ 39,361,449,580	$ 523,874,833	$ 39,885,324,413

* A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

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

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan Public School Employees' Retirement System (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. The System was established to provide retirement, survivor and disability benefits to the public school employees. There are 716 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern, Central, Northern, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2006, and 2005, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2006**	**2005***
Regular benefits	138,305	133,564
Survivor benefits	13,485	12,932
Disability benefits	5,373	5,210
Total	157,163	151,706
Current Employees:		
Vested	118,765	117,915
Non-vested	186,680	198,236
Total	305,445	316,151
Inactive employees entitled to benefits and not yet receiving them	15,739	16,806
Total All Members	478,347	484,663

*Restated based on more complete information provided by the actuary.

Notes to Basic Financial Statements (Continued)

Enrollment in the health plan is voluntary. The number of participants is as follows:

Health/Dental/Vision Plan	2006	2005
Eligible participants	157,163	151,706
Participants receiving benefits:		
Health	119,462	115,071
Dental/Vision	126,828	122,291

BENEFIT PROVISIONS

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

A member who leaves Michigan public school employment may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Under the Michigan Public School Employees' Retirement Act, all retirees have the option of health, dental and vision coverage. The employers fund health benefits on a "pay-as-you-go" basis. Retirees with this coverage contribute a portion of the monthly premium amount.

Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and final average compensation. Final average compensation is the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, the averaging period is 36 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree and equals 1.5% of a member's final average compensation multiplied by the total number of years of credited service.

A MIP member may retire at:

1. any age with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service; or
3. age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Basic Plan member may retire at:

1. age 55 with 30 or more years of credited service; or
2. age 60 with 10 or more years of credited service.

There is no mandatory retirement age.

Notes to Basic Financial Statements (Continued)

Early Retirement

A member may retire with an early permanently reduced pension:

1. after completing at least 15 but less than 30 years of credited service; and
2. after attaining age 55; and
3. with credited service in each of the 5 school years immediately preceding the pension effective date.

The early pension is computed in the same manner as a regular pension, but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

<u>Straight Life Pension</u> — The Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of a retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiaries.

Notes to Basic Financial Statements (Continued)

Survivor Options — Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary pre-deceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision).

100% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension — pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan — The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor Pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan participant has 10 years of credited service or, if age 60 or older, with five years of credited service. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or a parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of the death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a l00% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Notes to Basic Financial Statements (Continued)

Post Retirement Adjustments

Member Investment Plan (MIP) recipients receive an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan recipients receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

On January 1, 1990, pre-October 1, 1981, retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement adjustments.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

One time upward adjustments were made in 1972, 1974, 1976, and 1977 for retirees who retired on or after July 1, 1956, and were eligible for Social Security benefits. (Social Security coverage was enacted by referendum in 1956). The minimum base pension of retirees who were unable to qualify for Social Security through their public school employment (essentially pre-July 1, 1956 retirees), was increased in 1965, 1971, 1972, 1974, and 1981 with a percentage increase granted in 1976 and 1977.

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted.

MIP members enrolled in MIP prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member’s accumulated contributions plus interest, if any, are refundable.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension.

Notes to Basic Financial Statements (Continued)

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment for less than 21 years of service).

Dependents may receive 90% employer paid health benefit coverages (partial payment for dependents of deferred vested members who had 21 or more years of service).

The number of participants and other relevant financial information are as follows:

	2006	2005
Health, Dental and Vision Plan:		
Eligible Participants	157,163	151,706
Participants receiving benefits:		
Health	119,462	115,071
Dental/Vision	126,828	122,291
Expenses for the year	$694,313,906	$761,695,958
Employer payroll contribution rate	6.55%	6.55%

The only requirements for health benefits are that the retiree or beneficiary make application and be in receipt of a monthly pension. Applications for enrollment after retirement are accepted anytime during the year, with coverage effective six months following the receipt of the application.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

Reserve for Employee Contributions — Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds. At September 30, 2006, and 2005, the balance in this account was $1.6 billion and $1.4 billion, respectively.

Reserve for Member Investment Plan — This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2006, and 2005, the balance in this account was $3.5 billion and $3.4 billion, respectively.

Reserve for Employer Contributions — All reporting unit contributions, except payments for health benefits, are credited to this reserve. Interest from the Reserve for Undistributed Investment Income account is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2006, and 2005, the balance in this account was ($17.1) billion and ($9.4) billion, respectively.

Notes to Basic Financial Statements (Continued)

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2006, and 2005, the balance in this account was $27.2 billion and $19.4 billion, respectively.

Reserve for Undistributed Investment Income and Reserve for Administrative Expenses — The Reserve for Undistributed Investment Income account is credited with all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. At September 30, 2006, and 2005, the balance in this account was $27.8 billion and $24.5 billion, respectively. The balance of this reserve includes the balance of the Stabilization Subaccount.

Stabilization Subaccount — Under Public Act 143, effective November 19, 1997, the actuarial value of assets was set at market at September 30, 1997, with the 5 year smoothing of investment gains or losses applied prospectively. Also, the inflation component of the salary scale was reduced from 4% to 3.5%. The Act also established a stabilization subaccount of the Reserve for Undistributed Investment Income (income fund) to which any over funding is credited. As of September 30, 2006, the balance in the subaccount was zero. The balance in the subaccount is included in the balance of the income fund, which is included in pension plan net assets.

Reserve for Health Benefits — This reserve is credited with employee and employer contributions for retirees' health, dental and vision benefits. Interest is allocated based on the beginning balance of the fund. Health, dental and vision benefits are paid from this fund. The System pays 90% of the monthly premium, membership, or subscription fee for dental, vision and hearing benefits. At September 30, 2006, and 2005, the balance in this account was $630.2 million and $523.9 million, respectively.

Reporting Entity

The System is a pension trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments that do not have an established market are recorded at estimated fair value.

Notes to Basic Financial Statements (Continued)

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Post-employment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	2006	**2005**
Building Rentals	$ 613,290	$ 484,598
Technological Support	8,123,257	5,784,887
Attorney General	215,737	205,856
Investment Services	7,913,937	7,483,904
Personnel Services	8,809,695	7,980,394

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2006. As of September 30, 2006, the System's portion of this commitment is approximately $4.4 million.

Cash — On September 30, 2006, and 2005, the System had $81.6 million and $82.4 million, respectively, in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to $6.8 million and $2.9 million for the years ended September 30, 2006, and 2005, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

Notes to Basic Financial Statements (Continued)

NOTE 3 - CONTRIBUTIONS

The majority of the members currently participate on a contributory basis. Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability is amortized over a 30 year period for the 2006 fiscal year and 31 year period for the 2005 fiscal year.

Actual employer contributions for retirement benefits were $996.0 million and $774.3 million for fiscal years 2006 and 2005, respectively, representing 7.6% annual covered payroll for the year ended September 30, 2005. The fiscal year 2006 annual covered payroll is not yet available. Required employer contributions for pensions included:

1. $581.2 million and $592.3 million for fiscal years 2006 and 2005, respectively, for the normal cost of pensions representing 5.8% (before reconciliation) of annual covered payroll for fiscal year 2005.

2. $580.6 million and $431.1 million for fiscal years 2006 and 2005, respectively, for amortization of unfunded actuarial accrued liability representing 4.2% (before reconciliation) of annual covered payroll for fiscal year 2005.

The System is required to reconcile with actuarial requirements annually. Any funding excess or deficiency is smoothed over 5 years. One fifth (20%) of the funding excess or deficiency is included in the subsequent years' contribution, and is not recognized as a payable or receivable in the accounting records.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1997-1998, and payments began in fiscal year 1998-1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2006, and 2005, there were 46,423 and 48,459 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2006, and 2005. The average length of a contract was approximately 11.8 and 11.6 years for 2006 and 2005. The short term receivable was $84 million and the discounted long term receivable was $301 million at September 30, 2006. At September 30, 2005, the short term receivable was $91 million and the discounted long term receivable was $332 million.

NOTE 4 - INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Notes to Basic Financial Statements (Continued)

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the Act and up to 20% of the System's assets in investments not otherwise qualified under the Act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Derivatives

The State Treasurer employs the use of derivatives in the investment of the pension trust funds.

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 12.0% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, swap agreements, and option contracts. State investment statutes limit total derivative exposure to 15.0% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 9.0% of market value of total assets on September 30, 2006 and 10.7% of market value of total pooled assets on September 30, 2005. Option contracts represent the second largest category of reported derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2006, and 0.0% of market value of total pooled assets on September 30, 2005. Futures contracts represent the third largest category of derivatives used, and they represented 0.0% of market value of total pooled assets on September 30, 2006, and 0.3% of market value of total pooled assets on September 30, 2005.

To enhance management flexibility, the State Treasurer has purchased futures contracts tied to S&P indices. The futures contracts are combined with short-term investments to replicate the return of the S&P indices. The value of these synthetic equity structures is a combination of the value of the futures contract and the value of the dedicated short-term investments.

To capitalize on shorter-term windows of investment opportunities, the State Treasurer has purchased option contracts. Options allow more flexibility in achieving investment goals without disturbing the return/risk profiles of the longer-term strategies of the underlying investments.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2006, and 2005, were $2,830.5 million and $3,215.7 million, respectively. Approximately one half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2006 to July 2009.

U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2006, and 2005, international equity investment programs involving swaps, received realized gains and earned interest income of $647.7 million and $272.9 million, respectively.

Notes to Basic Financial Statements (Continued)

The unrealized gain of $1,064.2 million at September 30, 2006 and $1,019.9 at September 30, 2005 primarily reflects increases in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three year basis.

The respective September 30, 2006, and 2005 swap values are as follows:

	Notional Value	Current Value
9/30/2006 (dollars in millions)	$ 2,830.5	$ 3,892.7
9/30/2005 (dollars in millions)	3,215.7	4,229.5

The amounts shown above reflect both the total International Equity Pool swap exposure, and the smaller swap exposure to the S&P Small Cap Index Pool.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, by way of a Security Lending Authorization Agreement, authorized the agent bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to (i) in case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event any borrower failed to return the loaned security or pay distributions thereon. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a collateral account dedicated to the System. As of September 30, 2006, such account had an average weighted maturity to next reset of 22 days and an average weighted maturity of 678 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2006, the System had no credit risk exposure to borrowers. The cash held for securities on loan for the System as of September 30, 2006 was $6,711,645,224. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2006 was $6,539,934,052.

Gross income from security lending for the fiscal year was $156,767,001. Expenses associated with this income were the borrower's rebate of $149,466,839 and fees paid to the agent of $1,404,744.

Risk

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices and the risks associated with them. The credit risk, (including custodial credit risk and concentration of credit risk), the

Notes to Basic Financial Statements (Continued)

interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro rata share of the underlying investments as required by GASB 40. These are held in internal investment pools and reported as such in the financial statements.

Credit Risk - Credit risk is the risk that an issuer will not fulfill its obligations.

- Short Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P) and Moody's Investor Service (Moody's), respectively. Borrowers must have at least $400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrower's outstanding debt. The investments are further limited to $200.0 million in any borrower, unless the borrower has a A-1+ rating in which case the investment is not to exceed $300.0 million.

- Long Term Fixed Income Investments – These investments must be investment grade or better at the time of purchase unless specific requirements are met, as defined in P.A. 314 of 1965 as amended and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2006, the System was in compliance with the policy in all material aspects.

Rated Debt Investments
(in thousands)
As of September 30, 2006 and 2005

	2006				2005			
Investment Type	**Fair Value**	**S&P**	**Fair Value**	**Moody's**	**Fair Value**	**S&P**	**Fair Value**	**Moody's**
Short Term	$ 2,295,745	A-1	$ 2,706,155	P-1	$ 1,709,365	A-1	$ 1,872,640	P-1
	78,948	A-2	110,550	P-2	77,526	A-2	77,526	P-2
	599,645	NR	157,633	NR	376,903	NR	213,628	NR
U.S. Agencies-Sponsored								
	2,327,450	AAA	2,327,450	Aaa	1,937,079	AAA	1,937,079	Aaa
	61,519	NR	61,519	NR				
Corporate Bonds & Notes								
	469,879	AAA	481,600	Aaa	546,213	AAA	546,213	Aaa
	660,038	AA	888,940	Aa	743,987	AA	884,604	Aa
	1,191,377	A	791,096	A	1,314,890	A	1,153,370	A
	287,358	BBB	371,959	Baa	307,403	BBB	387,313	Baa
	4,625	B	17,422	B				
	2,627	BB	-	Ba	247,571	BB	109,443	Ba
	65,849	NR	130,736	NR	50,071	NR	129,192	NR
International *								
	307,490	AAA	268,569	Aaa	672,518	AAA	672,518	Aaa
	685,056	AA	1,093,659	Aa	770,374	AA	1,317,824	Aa
	902,855	A	432,069	A	1,611,000	A	1,040,091	A
	-	BB	-	Ba	78,211	BB	78,212	Ba
			101,104	NR			23,458	NR
Equity*	38,263	AA	262,715	Aa	38,198	AA	76,392	Aa
	224,452	A	-		38,194	A	-	
Total	$ 10,203,176		$ 10,203,176		$ 10,519,503		$ 10,519,503	

* International and Equity Investment types consist of domestic floating rate note used as part of a Swap strategy.

NR - not rated

Notes to Basic Financial Statements (Continued)

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

- Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

- The counterparty or

- The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2006. As of September 30, 2006, and 2005, Government securities with a market value of $18,964 thousand and $38,671 thousand, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

Concentration of Credit Risk - Concentration of credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by P.A. 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a system's assets in the obligations of any one issuer.

At September 30, 2006, and 2005, there were no investments in a single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Interest Rate Risk - Fixed Income Investments - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2006, and 2005, the fair value of the System's prime commercial paper was $2,974,338 thousand and $2,163,794 thousand with the weighted average maturity of 41 days and 38 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long term debt investments. However, the pension funds are invested with a long term strategy. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration and higher interest rates result in longer duration.

Notes to Basic Financial Statements (Continued)

Debt Securities
(in thousands)
As of September 30, 2006 and 2005

	2006		2005	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Government				
U. S. Treasury	$ 450,694	3.1	$ 308,741	4.3
U. S. Agencies - Backed	976,139	5.7	879,200	5.3
U. S. Agencies - Sponsored	2,388,969	3.7	1,937,079	2.5
Corporate	2,681,753	4.4	3,210,135	4.1
International*				
U. S. Treasury	77,665	0.5		
U. S. Agencies - Sponsored	38,732	0.1	39,073	0.1
Corporate	1,856,669	0.1	3,093,030	0.2
Equities*				
Corporate	262,715	0.6	76,392	0.2
Total	$ 8,733,336		$ 9,543,650	

*International and Equities contain U.S. Government and Corporate Debt Securities as a part of their derivative strategies
The interest rates reset on a quarterly basis for these securities.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the system with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in P.A. 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2006, and September 30, 2005, the total amount of foreign investment subject to foreign currency risk were $2,489,155 thousand and $1,764,697 thousand which amounted to 5.8% and 4.5% of total investments (exclusive of cash collateral on loaned securities) of the System, respectively.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2006

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	Real Estate Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $*
AMERICA							
	Canada	Dollar		$ 15,234			
	Mexico	Peso		57,433			
EUROPE							
	European Union	Euro	$ 364,490	102,656		$ 25,034	$ 182,723
	Switzerland	Franc		33,027			40,102
	Sweden	Krona		7,017			8,429
	Denmark	Krone				443	6,237
	Norway	Krone		3,459		39	6,810
	U.K.	Sterling	19,360	45,942		1,889	99,817
PACIFIC							
	Australia	Dollar		12,246			24,810
	Hong Kong	Dollar		2,423			16,859
	Japan	Yen	6,545	62,138		246	92,155
	Singapore	Dollar					3,861
	South Korea	Won		7,469			31,531
VARIOUS				499,694	$ 149,070	559,967	
	Total		$ 390,395	$ 848,738	$ 149,070	$ 587,618	$ 513,334

* Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2006 through November 2008 with an average maturity of 1.1 years.

Notes to Basic Financial Statements (Continued)

Foreign Currency Risk
(in thousands)
As of September 30, 2005

Region	Country	Currency	Alt. Invest. Market Value in U.S. $	Equity Market Value in U.S. $	International Equities Market Value in U.S. $	International Derivatives Market Value in U.S. $*
AMERICA						
	Mexico	Peso		$ 201,405		
EUROPE						
	European Union	Euro	$ 265,324		$ 53,135	$ 131,974
	Switzerland	Franc		24,896		20,190
	Sweden	Krona			340	11,713
	Denmark	Krone			1,243	7,273
	Norway	Krone			1,389	7,009
	U.K.	Sterling	23,351	135,280	32,556	73,594
PACIFIC						
	Australia	Dollar			345	32,901
	Hong Kong	Dollar			4,764	8,829
	Japan	Yen	6,767		3,510	100,299
	New Zealand	Dollar				1,453
	Singapore	Dollar				4,932
	South Korea	Won				19,303
VARIOUS					590,922	
	Total		$ 295,442	$ 361,581	$ 688,204	$ 419,470

* Note: International derivatives market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2005 through September 2008 with an average maturity of 1.5 years.

Notes to Basic Financial Statements (Continued)

NOTE 5 — ACCOUNTING CHANGES

In fiscal year 2005, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB No. 3), which modifies and expands disclosure requirements for deposits and investments. The new requirements are effective for fiscal periods beginning after June 15, 2004. Information within this financial report is presented on a comparative basis.

The GASB has issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which provides guidance on the tables and narrative explanations in the statistical section. The requirements of this statement are effective for fiscal periods beginning after June 15, 2005. This statement was adopted in fiscal year 2006 and was reflected in this report.

The GASB has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans (OPEB plans). The requirements of this statement are effective one year prior to the effective date of the related Statement (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*) for the employer or the largest employer in the plan. Because the State of Michigan is a phase 1 government (those with total annual revenues of $100 million or more), the System is required to implement statement No. 43 in financial statements for periods beginning after December 15, 2005.

The GASB has issued Statement No. 47, *Accounting for Termination Benefits*, which provides guidance on how employers should account for benefits associated with either voluntary or involuntary termination. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2005 (except for those provisions involving other postemployment benefits, which only take effect upon the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*). It has been determined, upon review of GASB Statement No. 47, that the Statement has no effect on reporting for the System.

NOTE 6 — COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision made by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan’s court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

Required Supplementary Information

Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the underfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Retirement Benefits ($ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1996	$ 22,529	$ 28,571	$ 6,042	78.9 %	$ 7,807	77.4 %
1997	25,485	30,179	4,694	84.4	8,027	58.5
1997 [2]	30,051	29,792	(259)	100.9	8,027	(3.2)
1998	31,870	32,137	267	99.2	8,265	3.2
1998 [1]	31,870	32,863	993	97.0	8,265	12.0
1999	34,095	34,348	253	99.3	8,644	2.9
2000	36,893	37,139	246	99.3	8,985	2.7
2001	38,399	39,774	1,375	96.5	9,264	14.8
2002	38,382	41,957	3,575	91.5	9,707	36.8
2003	38,726	44,769	6,043	86.5	10,044	60.2
2004 [1]	38,784	46,317	7,533	83.7	10,407	72.4
2005	38,211	48,206	9,995	79.3	10,206	97.9

[1] Revised actuarial assumptions

[2] Revised actuarial assumptions and revised asset valuation method

Required Supplementary Information (Continued)

Schedule of Employer and Other Contributions

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)*	Actual Contributions	Other Governmental Contributions	Percentage Contributed
1996	$ 848,022,600	$ 829,626,962		97.83 %
1997	855,978,200	904,165,262		105.63
1998	537,557,091	674,716,330		125.52
1999	593,525,284	574,436,929		96.78
2000	572,605,695	655,258,923		114.43
2001	582,404,345	756,002,136		129.81
2002	668,956,633	603,949,327		90.28
2003	812,891,416	697,906,265		85.85
2004	978,035,492	697,647,338		71.33
2005	1,023,336,739	774,277,778		75.66
2006	1,161,843,239	995,932,425	$ 64,574	85.72

* The ARC has been recalculated for all years presented in order to reflect only the employer's share of the actuarial required contributions and current assumptions.

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

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

The Schedule of Funding Progress and Schedule of Employer and Other Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer and Other Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	9/30/2005
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	31 years*
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Inflation Rate	3.5%
Investment Rate of Return	8%
Projected Salary Increases	3.5 to 15.9%
Cost-of-Living Adjustments	3% annual non-compounded for MIP members

* When the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed forty years for the fiscal periods beginning prior to June 15, 2006. After that date, the amortization period may not exceed thirty years.

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses As of September 30, 2006 and 2005

	2006	2005
Personnel Services:		
Staff Salaries	$ 6,029,778	$ 5,486,980
Retirement and Social Security	1,651,209	1,513,067
Other Fringe Benefits	1,128,708	980,347
Total	8,809,695	7,980,394
Professional Services:		
Accounting	1,268,334	1,309,978
Actuarial	174,869	185,000
Attorney General	215,737	205,856
Audit	48,501	29,965
Consulting	39,590	78,725
Medical	393,927	361,995
Total	2,140,958	2,171,519
Building and Equipment:		
Building Rentals	613,290	484,598
Equipment Purchase, Maintenance, and Rentals	53,144	68,375
Total	666,434	552,973
Miscellaneous:		
Travel and Board Meetings	39,372	26,466
Office Supplies	70,238	74,785
Postage, Telephone, and Other	2,323,112	3,081,280
Printing	328,032	325,650
Technological Support	8,123,257	5,784,887
Total	10,884,011	9,293,068
Total Administrative Expenses	$ 22,501,098	$ 19,997,954

Comparative Summary Schedule of Health Plan Administrative Expenses As of September 30, 2006 and 2005

	2006	2005
Health Fees	$ 54,335,949	$ 50,583,117
Dental Fees	4,953,290	3,948,848
Vision Fees	170,451	988,066
Total Administrative Expenses	$ 59,459,690	$ 55,520,031

Supporting Schedules (Continued)

Schedule of Investment Expenses

	2006	2005
Real Estate Operating Expenses	$ 325,681	$ 517,603
Securities Lending Expenses	150,871,583	53,845,116
Other Investment Expenses*:		
ORS-Investment Expenses	7,913,937	7,483,904
Custody Fees	909,195	1,148,349
Management Fees-Real Estate	2,056,735	561,489
Management Fees-Alternative	43,139,209	42,589,340
Research Fees	762,959	800,516
Total Investment Expenses	$ 205,979,299	$ 106,946,317

*Refer to the Investment Section for fees paid to investment professionals

Schedule of Payments to Consultants

	2006	2005
Accounting	$ 1,268,334	$ 1,309,978
Independent Auditors	48,501	29,965
Medical Advisor	393,927	361,995
Actuary	174,869	185,000
Consulting	39,590	78,725
Attorney General	215,737	205,856
Total Payments	$ 2,140,958	$ 2,171,519

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2006

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 225,497,865	$ 293,101,855	
Employer contributions:			
Colleges, universities and federal			$ 69,385,887
School districts and other			926,546,538
Other governmental contributions			64,574
Total contributions	225,497,865	293,101,855	995,996,999
Investment income (loss):			
Investment income (loss)			
Interest income			
Investment expenses:			
Real estate operating expenses			
Other investment expenses			
Securities lending activities:			
Securities lending income			
Securities lending expenses			
Net investment income (loss)	-	-	-
Transfers from other systems	2,647		
Miscellaneous income			
Total additions	225,500,512	293,101,855	995,996,999
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	2,614,414	20,808,233	474,347
Transfers to other systems	86,530	36,529	
Administrative expenses			
Total deductions	2,700,944	20,844,762	474,347
Net Increase (Decrease)	222,799,568	272,257,093	995,522,652
Other Changes in Net Assets:			
Interest allocation	49,280,411	83,242,741	
Transfers upon retirement	(93,295,235)	(281,936,074)	
Transfer - stabilization account			
Transfers of employer shares			(8,652,938,007)
Total other changes in net assets	(44,014,824)	(198,693,333)	(8,652,938,007)
Net Increase (Decrease) After Other Changes	178,784,744	73,563,760	(7,657,415,355)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,405,088,838	3,432,471,523	(9,407,581,159)
End of Year	$ 1,583,873,582	$ 3,506,035,283	$ (17,064,996,514)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 71,813,553	$ 590,413,273
		59,030,437	128,416,324
		627,899,121	1,554,445,659
			64,574
-	-	758,743,111	2,273,339,830
	$ 4,975,920,709		4,975,920,709
		41,909,987	41,909,987
	(325,681)		(325,681)
	(54,782,035)		(54,782,035)
	156,767,001		156,767,001
	(150,871,583)		(150,871,583)
-	4,926,708,411	41,909,987	4,968,618,398
			2,647
$ 464,297	4,788		469,085
464,297	4,926,713,199	800,653,098	7,242,429,960
2,761,292,217			2,761,292,217
		565,261,409	565,261,409
		69,550,438	69,550,438
6,828		42,370	23,946,192
			123,059
	22,501,098	59,459,690	81,960,788
2,761,299,045	22,501,098	694,313,907	3,502,134,103
(2,760,834,748)	4,904,212,101	106,339,191	3,740,295,857
1,551,509,717	(1,684,032,869)		-
375,231,309			-
			-
8,652,938,007			-
10,579,679,033	(1,684,032,869)	-	-
7,818,844,285	3,220,179,232	106,339,191	3,740,295,857
19,393,871,459	24,537,598,919	523,874,833	39,885,324,413
$ 27,212,715,744	$ 27,757,778,151	$ 630,214,024	$ 43,625,620,270

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits)
For the Year Ended September 30, 2005

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 101,171,884	$ 267,068,953	
Employer contributions:			
Colleges, universities and federal			$ 61,409,578
School districts and other			712,868,200
Total contributions	101,171,884	267,068,953	774,277,778
Investment income (loss):			
Investment income (loss)			
Interest income			
Investment expenses:			
Real estate operating expenses			
Other investment expenses			
Securities lending activities:			
Securities lending income			
Securities lending expenses			
Net investment income (loss)	-	-	-
Transfers from other systems	15,051		
Miscellaneous income			
Total additions	101,186,935	267,068,953	774,277,778
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	2,995,432	18,380,694	685,592
Transfers to other systems	75,809	43,785	
Administrative expenses			
Total deductions	3,071,241	18,424,479	685,592
Net Increase (Decrease)	98,115,694	248,644,474	773,592,186
Other Changes in Net Assets:			
Interest allocation	49,210,878	94,112,837	
Transfers upon retirement	(101,900,306)	(237,555,528)	
Transfer - stabilization account			54,247,323
Transfers of employer shares			(6,166,731,694)
Total other changes in net assets	(52,689,428)	(143,442,691)	(6,112,484,371)
Net Increase (Decrease) After Other Changes	45,426,266	105,201,783	(5,338,892,185)
Net Assets Held in Trust for Pension and Health Benefits:			
Beginning of Year	1,359,662,572	3,327,269,740	(4,068,688,974)
End of Year	$ 1,405,088,838	$ 3,432,471,523	$ (9,407,581,159)

Retired Benefit Payments	Undistributed Investment Income	Health Benefits	Total
		$ 62,507,616	$ 430,748,453
		56,392,438	117,802,016
		643,974,305	1,356,842,505
-	-	762,874,359	1,905,392,974
	$ 4,580,597,331		4,580,597,331
		38,718,254	38,718,254
	(517,603)		(517,603)
	(52,583,598)		(52,583,598)
	56,948,500		56,948,500
	(53,845,116)		(53,845,116)
-	4,530,599,514	38,718,254	4,569,317,768
			15,051
	6,523	-	6,523
-	4,530,606,037	801,592,613	6,474,732,316
$ 2,558,017,710			2,558,017,710
		641,616,478	641,616,478
		64,367,305	64,367,305
		192,144	22,253,862
			119,594
	19,997,954	55,520,031	75,517,985
2,558,017,710	19,997,954	761,695,958	3,361,892,934
(2,558,017,710)	4,510,608,083	39,896,655	3,112,839,382
1,600,920,988	(1,744,244,703)		-
339,455,834			-
	(54,247,323)		-
	6,166,731,694		-
1,940,376,822	4,368,239,668	-	-
(617,640,888)	8,878,847,751	39,896,655	3,112,839,382
20,011,512,347	15,658,751,168	483,978,178	36,772,485,031
$ 19,393,871,459	$ 24,537,598,919	$ 523,874,833	$ 39,885,324,413

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jacqueline M. Johnson, CFA, Director

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports investment activity quarterly to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. In fiscal 2006, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), Marina v.N. Whitman (public member), Robert W. Swanson (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOALS

Investment policy states that the fiduciary will operate within standard investment practices of the prudent person and in accordance with Public Employee Retirement System Investment Act 314 of 1965. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, venture capital interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, pension fund assets are to be invested for the exclusive benefit of the members of the System.

The System's Proxy Voting Policy sets forth directives on the following issues: Boards of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the System's policy.

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the System are:

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner.

Report on Investment Activity (Continued)

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently has seven different asset classes, which provides for a well-diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/06 Actual %		Five-Year Target %
Domestic Equity - Active	29.3%		26.5%
Large Cap Value Pool		13.2%	
Large Cap Growth Pool		13.1%	
Mid Cap Pool		2.1%	
Small Cap Pool		0.9%	
Domestic Equity - Passive	19.1%		19.5%
S&P 500 Index Pool		16.4%	
S&P MidCap Index Pool		1.9%	
Tactical Asset Allocation Pool		0.6%	
S&P Small Cap Index Pool		0.2%	
International Equity	12.2%		10.0%
International Equity Pool - Passive		10.4%	
International Equity Pool - Active		1.8%	
Alternative Investments Pool	12.7%		12.0%
Real Estate Pool	7.5%		10.0%
Fixed Income	16.3%		16.0%
Government Bond Pool		8.3%	
Corporate Bond Pool		6.2%	
Fixed Income Bond Pools		1.8%	
Short Term Investment Pool	2.9%		2.0%
Commodities	0.0%		4.0%
Total	**100.0%**		**100.0%**

INVESTMENT AUTHORITY

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

Report on Investment Activity (Continued)

INVESTMENT RESULTS

Total Portfolio Results

For the fiscal year ended September 30, 2006, the total System's rate of return was 12.8% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2006, were 12.7%; for the five-year period were 8.0%; and for the ten-year period were 8.8%.

Returns were calculated using a time-weighted rate of return in accordance with industry standards, unless a modification is described in the discussion of the reported return.

Investment results were once again driven by double-digit returns from every major asset class except fixed income and short-term investments. Equity performance was strong much of the year in spite of soaring commodity and energy prices. Reversing a multi-year trend, the stocks of larger companies (S&P 500) outperformed those of mid-cap (S&P 400) and small cap (S&P 600), while non-U.S. markets performed better than U.S. indices. Residential housing experienced a meaningful slowdown during the year due to higher interest rates and stricter lending regulations. Alternative Investments continued to reap the benefits of a number of investments made in prior years as well as favorable markets for monetization of gains. Robust commercial real estate markets allowed the Real Estate pool to experience gains from both sales and appraisals of property. Bond markets struggled with the fear of higher inflation and a Federal Reserve intent on controlling inflation with higher short-term rates. Returns for the short-term pool climbed throughout the year to more than 4.5%.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 13.3%, while the broader based S&P 500 returned 10.8%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 3.3%.

The U.S. economy grew at a rate of 3.1% in fiscal year 2006 as measured by real gross domestic product. The December quarter was negatively affected by the impact of last year's hurricane season, but growth came roaring back in the March quarter. The second half of the year settled back to more normal, sustainable growth levels. Corporate earnings remained strong, led by robust profits from energy companies. Strong demand sent commodity and energy prices climbing during most of the year, with oil coming close to $80 per barrel in August before selling off sharply to nearly $60 by the end of the year. Inflation, as measured by the consumer price index, increased 3.7%.

Federal Reserve Chairman Alan Greenspan retired after nineteen years at the helm and Ben Bernanke was appointed his successor on February 1, 2006. The Federal Reserve continued to raise short-term rates by 25 basis points at each of its first six meetings in the fiscal year, but left rates unchanged at 5.25% in both August and September after seventeen consecutive rate hikes.

The System remains well diversified, both across and within asset classes, and positioned to benefit from moderate economic growth.

Large Cap Value Pool

The objective of the pool of large company value stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Value Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that are significantly under-priced as measured by price-to-earnings and/or price-to-book value ratios and below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in depressed categories, experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Value Index.

Report on Investment Activity (Continued)

The following summarizes the weightings of the pool as of September 30, 2006:

Financials	38.1 %
Industrials	13.7
Technology	10.0
Consumer Discretionary	8.6
Energy	8.5
Utilities	8.3
Materials	4.3
Other	3.5
Healthcare	2.7
Consumer Staples	2.3
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 15.8% for fiscal 2006. This compared with 14.0% for the S&P Citigroup Value Index.

At the close of fiscal year 2006, the Large Cap Value pool represented 13.2% of total investments. This compares to 15.4% for fiscal year 2005. The following summarizes the System's 78.1% ownership share of the Large Cap Value pool at September 30, 2006:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$ 191,535
Equities	5,491,146
Settlement Principal Payable	(5,279)
Settlement Proceeds Receivable	3,201
Accrued dividends	6,641
Total	**$ 5,687,244**

Large Cap Growth Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Growth Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion whose earnings growth rates are expected to exceed the growth rate of the S&P 500 Index and are priced at or below fair value as determined by quantitative and qualitative models. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

Report on Investment Activity (Continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depository Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Growth Index.

The following summarizes the weightings of various sectors in the pool as of September 30, 2006:

Technology	22.4 %
Healthcare	20.3
Consumer Discretionary	12.5
Consumer Staples	12.1
Financials	11.1
Energy	10.7
Industrials	8.7
Other	1.0
Utilities	0.7
Materials	0.5
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 7.2% for the fiscal year versus 7.4% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2006, the Large Cap Growth pool represented 13.1% of total investments. This compares to 15.7% for fiscal year 2005. The following summarizes the System's 77.7% ownership share of the Large Cap Growth pool at September 30, 2006:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$ 54,448
Equities	5,575,926
Settlement Principal Payable	(6,480)
Accrued dividends	4,149
Total	**$ 5,628,043**

Mid Cap Pool

Five Mid Cap managers were selected in December 2005, and added to the four managers selected in May 2005. The new managers began managing assets for the system in December 2005 and they were funded out of the Large Cap Value and Growth pools. The investment objective of the Mid Cap manager pool is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for the fiscal year was 7.1% versus the benchmark's 6.6%.

Report on Investment Activity (Continued)

At the close of fiscal year 2006, the Mid Cap pool represented 2.1% of total investments. This compares to 0.9% for fiscal year 2005. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2006:

Mid Cap Value and Core Pool
(in thousands)

	Artisan MidCap Value	Cramer Rosenthal McGlynn MidCap Value	Los Angeles Capital MidCap Core	Wellington Management MidCap Core
Total Investment	$ 150,611	$ 138,885	$ 91,254	$ 136,067
Ownership Percentage	77.4%	77.2%	77.4%	77.4%

Mid Cap Value and Core Pool
(in thousands)

	Alliance MidCap Growth	Putnam MidCap Growth	Rainer MidCap Growth	UBS MidCap Growth	Wellington MidCap Growth
Total Investment	$ 93,392	$ 38,113	$ 80,958	$ 79,796	$ 82,910
Ownership Percentage	77.2%	77.1%	77.1%	77.1%	77.1%

Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index.

The System’s Small Cap pool is invested with two Growth managers and three Value managers.

The Small Cap pool return for the fiscal year was 8.3% versus the benchmark’s 7.2%.

At the close of fiscal year 2006, the Small Cap pool represented 0.9% of total investments. This compares to 0.8% for fiscal year 2005. The chart on the following page summarizes the System’s ownership share and composition of the Small Cap Pool at September 30, 2006:

Report on Investment Activity (Continued)

Small Cap Pools
(in thousands)

	Delaware Growth	Putnam Growth	Putnam Value	Northpointe Value	Fisher Value
Total Equities	$ 120,271	$ 73,702	$ 66,709	$ 59,080	$ 82,846
Ownership Percentage	76.3%	76.3%	77.3%	77.1%	79.5%

S&P 500 Index Pool

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2006:

Financials	22.3 %
Information Technology	15.3
Healthcare	12.7
Industrials	10.9
Consumer Discretionary	10.1
Consumer Staples	9.6
Energy	9.3
Telecomm. Services	3.5
Utilities	3.4
Materials	2.9
Total	**100.0 %**

The S&P 500 Index pool return for the fiscal year was 10.8% versus the benchmark's 10.8%.

At the close of fiscal year 2006, the S&P 500 Index pool represented 16.4% of total investments. This compares to 13.5% for fiscal year 2005. The following summarizes the System's 77.6% ownership share of the S&P 500 Index pool at September 30, 2006:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$ 30,766
Equities	7,057,393
Futures Contracts	(11)
Settlement Principal Receivable	500
Settlement Principal Payable	(1,689)
Accrued dividends	7,670
Total	**$ 7,094,629**

Report on Investment Activity (Continued)

S&P MidCap Index Pool

The objective of the S&P MidCap Index pool is to closely match the return performance of its benchmark, the S&P MidCap, and use low risk strategies to offset transaction costs and add to performance when possible. The pool invests in equities of mid-size firms.

The S&P MidCap Index pool return for the fiscal year was 6.9% versus the benchmark's 6.6%.

At the close of fiscal year 2006, the S&P MidCap Index pool represented 1.9% of total investments. This compares to 1.9% for fiscal year 2005. The following summarizes the System's 75.8% ownership share of the S&P MidCap Index pool at September 30, 2006:

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$	6,686
Equities		799,438
Futures Contracts		(32)
Settlement Proceeds Receivable		1,511
Settlement Proceeds Payable		(2,395)
Accrued dividends		622
Total	**$**	**805,830**

S&P Small Cap Index Pool

The objective of the S&P Small Cap Index pool is to match the return of its benchmark, the S&P 600 Small Cap Index. The S&P Small Cap Index pool return for the fiscal year was 7.5% versus the benchmark's 7.2%.

The pool achieves exposure to small cap equity returns primarily by investing in a combination of fixed income notes and equity swap agreements tied to the S&P 600 index. The total notional amount of the S&P 600 swap agreements is invested in dedicated fixed income notes. Interest from the dedicated notes is exchanged for S&P 600 stock returns. Use of swap agreements for a core position began in 2002, and an S&P 600 Exchange Traded Fund was added to this pool in 2004 to enhance management flexibility.

At the close of fiscal year 2006, the S&P Small Cap Index pool represented 0.2% of total investments. This compares to 0.3% for fiscal year 2005. The following summarizes the System's 76.4% ownership share of the S&P Small Cap Index pool at September 30, 2006:

S&P Small Cap Index Pool
(in thousands)

Short Term Pooled Investments	$	623
Equities		18,940
Fixed Income Securities		38,263
Market Value of Equity Contracts		7,704
Accrued dividends and interest		136
Total	**$**	**65,666**

Report on Investment Activity (Continued)

International Equities Pool - Passive

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was 17.5% compared to the Citigroup BMI-EPAC return of 18.5%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at $3,846.5 million on September 30, 2006. That valuation included a net unrealized gain of $1,054.3 million on equity index exposures and an unrealized gain of $1.9 million on LIBOR note investments held. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2006, $575.9 million of gains on equity exposures were realized, $35.9 million of interest in excess of obligations on completed swaps was recognized, and $0.5 million of losses on LIBOR notes were realized.

At the close of fiscal year 2006, the International Equity – Passive pool represented 10.4% of total investments. This compares to 11.7% for fiscal year 2005. The following summarizes the System's 77.8% ownership share of the International Equity Pool - Passive at September 30, 2006:

International Equities Pool - Passive
(in thousands)

Short Term Pooled Investments	$ 890,588
Equities	587,618
Fixed Income Securities	1,971,357
Market Value of Equity Contracts	1,040,283
Accrued dividends and interest	15,894
Total	**$ 4,505,740**

International Equities Pool - Active

The investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P Citigroup Broad Market Index (BMI) World Ex-United States. That benchmark is impacted by foreign currency exchange rate changes.

In fiscal year 2005, the System invested in Alliance Bernstein International Style Blend, a mix of Large Cap Growth and Value, and in fiscal year 2006 achieved a total rate of return of 18.8% vs. Citigroup Broad Market Index World ex. U.S. of 19.3%. During fiscal year 2006, investments were made in the following funds: The Wellington Trust

Report on Investment Activity (Continued)

Company International Research Equity Fund, which for a nine month period achieved a total rate of return of 15.4% and the State Street Global Asset International Alpha Select Pool which achieved a total rate of return of 17.0%. For the same nine month period the benchmark S&P Citigroup Broad Market Index World ex. U.S. achieved a return of 13.9%.

At the close of fiscal year 2006, the International Equity - Active pool represented 1.8% of total investments. This compares to 0.6% for fiscal year 2005. The following summarizes the System's ownership share and composition of the pool at September 30, 2006:

International Equities Pools - Active
(in thousands)

	Alliance Bernstein International	Wellington International	SSGA International
Total Investment	$ 278,968	$ 220,726	$ 269,041
Ownership Percentage	77.6%	77.4%	77.4%

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the S&P 500 Index plus 300 basis points for all private equity investments over long time periods.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2006:

Buyout Funds	56.5 %
Special Situation Funds	13.1
Venture Capital Funds	11.8
Funds of Funds	11.3
Mezzanine Funds	4.1
Hedge Funds	1.8
Short Term Investments	1.4
Total	**100.0 %**

The Alternative Investments pool had a return of 26.3% for the fiscal year ended September 30, 2006, versus the S&P 500 Index plus 300 basis points of 13.9%.

Credit Suisse Asset Management (CSAM) managed the stock distributions of the Alternative Investments. The CSAM return for the fiscal year ending September 30, 2006, was (19.8%).

At the close of fiscal year 2006, the Alternative Investments pool represented 12.7% of total investments and Credit Suisse Asset Management represented 0.01% of total investments. This compares to 11.5% for Alternative and 0.1% for CSAM for fiscal year 2005. The chart on the following page summarizes the System's ownership share and composition of the Alternative Investments pool and Credit Suisse Asset Management at September 30, 2006:

Report on Investment Activity (Continued)

Alternative Investments Pool
(in thousands)

	Alternative	CSAM
Short Term Pooled Investments	$ 74,553	$ -
Equities	5,412,421	624
Settlement Proceeds Receivable	-	3,656
Dividends Receivable	-	3
Total	**$ 5,486,974**	**$ 4,283**
Ownership Percentage	78.7%	81.4%

Real Estate Pool

The Real Estate pool seeks favorable returns through rental income and appreciation of real estate investments. Real estate investments are typically held through various legal investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and real estate related investments. Independent third parties regularly value the real estate investments to establish current market values.

The Real Estate pool diversifies its holdings by:

- Geographic region - The pool is broadly diversified geographically. Emphasis is placed upon U.S. real estate investments, but may also include foreign real estate investments that are not expected to exceed ten percent of the value of the pool.
- Property (size and value) - The pool diversifies its holdings so that it is not concentrated in a few large real estate assets.
- Property type - The pool is diversified by type of property as summarized in the table below at September 30, 2006:

Multi-family apartments	24.5 %
Commercial office buildings	22.1
Hotels	15.1
Retail shopping centers	15.1
Industrial warehouse buildings	9.8
Senior Living	4.2
Short Term Investments	3.6
Land	2.9
For Sale Housing	2.7
Total	**100.0 %**

The Real Estate pool generated a return of 18.9% for fiscal year 2006, while the benchmark return was 16.3%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. The Real Estate pool benefited from a robust real estate market. During the year the pool had strong appreciation and also realized strong gains on asset sales.

Report on Investment Activity (Continued)

At the close of fiscal year 2006, the Real Estate pool represented 7.5% of total investments. This compares to 7.5% for fiscal year 2005. The following summarizes the System's 75.0% ownership share of the Real Estate pool at September 30, 2006:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$ 116,144
Equities	3,129,334
Fixed Income Securities	6
Total	**$ 3,245,484**

Government Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the benchmark, Lehman Brothers Government Index.

The pool invests in a diversified portfolio of government bonds including, but not limited to, treasuries, agencies, and government sponsored enterprises. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk reward relationship relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2006, the Government Bond pool returned 4.3% which compared favorably to the Lehman Brothers Government Index of 3.3%.

Rates continued to be volatile during the year. Ten-year treasuries started the year at 4.32%, rose to 5.25%, then declined and ended at 4.63%. The yield curve shifted upward and continued to flatten from five to thirty years. From three months to three years the curve inverted.

The following summarizes the security type breakdown of the pool as of September 30, 2006:

U.S. Agency	61.8 %
GNMA	18.2
U.S. Guaranteed	8.7
U.S. Treasury	4.9
TIPS	4.3
Short Term Investments/Accruals	2.1
Total	**100.0 %**

At the close of fiscal year 2006, the Government Bond pool represented 8.3% of total investments. This compares to 8.0% for fiscal year 2005. The chart on the following page summarizes the System's 77.6% ownership share of the Government Bond pool at September 30, 2006:

Report on Investment Activity (Continued)

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	44,466
Fixed Income Securities		3,521,113
Accrued interest		31,614
Total	**$**	**3,597,193**

Corporate Bond Pool

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Credit Index.

The pool invests in a diversified portfolio of investment grade corporate issues. Such issues are rated in the top four categories by nationally recognized rating agencies. Non-rated bonds are acceptable if they are determined to be of comparable quality. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk reward relationship relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2006, the Corporate Bond pool returned 3.6% compared to the Lehman Brothers Credit Index of 3.4%. The pool's performance improved as the year progressed due to the decline in rates later in the year.

The following summarizes the security type breakdown of the pool as of September 30, 2006:

Financials	29.4	%
Short Term Investments/Accruals	15.6	
Healthcare	12.3	
Industrials	10.3	
Consumer Discretionary	9.0	
Consumer Staples	8.8	
Utilities	5.1	
Other	4.9	
Materials	2.6	
Information Technology	2.0	
Total	**100.0**	**%**

At the close of fiscal year 2006, the Corporate Bond pool represented 6.2% of total investments. This compares to 8.4% for fiscal year 2005. The chart on the following page summarizes the System's 78.3% ownership share of the Corporate Bond pool at September 30, 2006:

Report on Investment Activity (Continued)

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	388,442
Fixed Income Securities		2,246,347
Accrued interest		25,901
Total	**$**	**2,660,690**

Fixed Income Core Pools

Five Fixed Income Core managers were selected in fiscal year 2006, and they began managing assets for the System beginning March 31, 2006. Their investment objective is to generate a rate of return exceeding the Lehman Aggregate Index net of fees.

The System hired Delaware Investments, Dodge & Cox, Dupont Capital Management, Fidelity Management Trust, and Metropolitan West Asset Management.

The Fixed Income Core pools combined rate of return from inception to fiscal year end was 3.6%.

At the close of fiscal year 2006, the Fixed Income Core pools represented 0.9% of total investments. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2006:

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Fidelity Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 80,331	$ 79,938	$ 40,142	$ 120,872	$ 80,387
Ownership Percentage	77.6%	77.6%	77.6%	77.6%	77.6%

Corporate Fixed Income Manager Pools

Four Corporate Fixed Income managers were selected in fiscal year 2006, and they began managing assets for the System beginning September 15, 2006. Their investment objective is to generate a rate of return exceeding the Lehman Credit Index net of fees.

The System hired AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Corporate Fixed Income Manager pools combined rate of return from inception to fiscal year end was 0.7%.

At the close of fiscal year 2006, the Corporate Fixed Income Manager pools represented 0.9% of total investments. The chart on the following page summarizes the System's ownership share and composition of the four Corporate Fixed Income Manager pools at September 30, 2006:

Report on Investment Activity (Continued)

Corporate Fixed Income Manager Pools (in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 78,117	$ 137,010	$ 78,271	$ 97,215
Ownership Percentage	77.6%	77.6%	77.6%	77.6%

Short Term Investment Pool

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was 4.9% versus the benchmark's 4.4%.

Potential areas of investment are:

- Obligations of the United States or its agencies.
- Banker's acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the US government or its agencies.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two national rating services as determined by the State Treasurer.

As of September 30, 2006, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2006, the Short Term Investment pool represented 2.9% of total investments. This compares to 3.7% for fiscal year 2005. The System's 82.1% ownership share of the Short Term Investment pool at September 30, 2006 was $1,257,740,257 composed of fixed income securities and equity in common cash.

Tactical Asset Allocation Pool

A Tactical Asset Allocation (TAA) Pool was established in June 2006 to allow the System more flexibility in achieving its investment goals. The TAA can be used to capitalize on shorter-term windows of investment opportunities without disturbing the return/risk profiles of the longer-term strategies of the underlying investment pools.

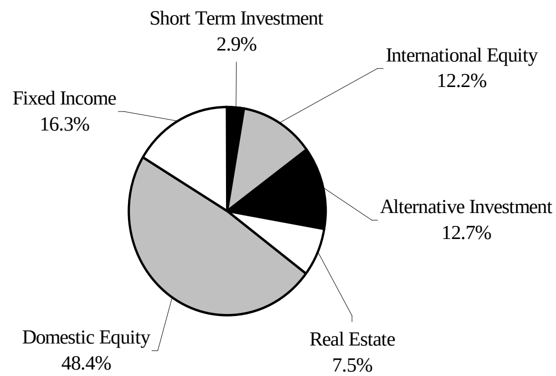
The Tactical Asset Allocation pool return from inception to fiscal year end was 7.5%.

At the close of fiscal year 2006, the Tactical Asset Allocation pool represented 0.6% of total investments. The following summarizes the System's 77.7% ownership share of the Tactical Asset Allocation pool at September 30, 2006:

Tactical Asset Allocation Pool (in thousands)

Short Term Pooled Investments	$ 1
Net Equities	25,997
Fixed Income Securities	224,452
Total	**$ 250,450**

ASSET ALLOCATION



Investment Results for the Period Ending September 30, 2006

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	12.8 %	12.7 %	8.0 %	8.8 %
Total Domestic Equity	10.8	12.0	7.2	8.4
S&P 1500 Index	10.3	12.8	7.7	9.0
Large Cap Value Pool	15.8	15.9		
Large Cap Growth Pool	7.2	7.5		
Mid Cap Pool	7.1			
Small Cap Pool	8.3	12.5		
S&P 500 Index Pool	10.8	12.3		
S&P MidCap Index Pool	6.9	15.4		
S&P Small Cap Index Pool	7.5	17.5		
International Equity Pool - Passive	17.5	21.3	12.8	8.2
S&P Citigroup BMI - EPAC 50/50	18.5	22.3	13.4	7.8
International Equity Pool - Active	19.7			
Alternative Investments Pool	26.3	23.6	9.7	12.0
S&P 500 Index plus 300 Basis Points	13.9	15.4	10.3	12.1
Credit Suisse Asset Management (Stock Distributions)	(19.8)	(8.2)		
Real Estate Pool	18.9	13.7	11.1	11.3
NCREIF Property Blended Index[2]	16.3	15.4	11.6	11.7
Total Fixed Income	4.0	3.4	4.7	6.2
Lehman Brothers Government/Credit	3.3	3.1	5.0	6.5
Government Bond Pool	4.3	3.6		
Corportate Bond Pool	3.6	3.3		
Short Term Investment Pool	4.9	2.8	2.4	4.2
30 Day Treasury Bill	4.4	2.6	2.2	3.5

[1]Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards.
[2]As of 10/1/05, index is NCREIF less 130 bp. History prior to 10/1/05 reflects NCREIF less 75 bp.

Largest Assets Held

Largest Stock Holdings (By Market Value)[1]
September 30, 2006

Rank	Shares	Stocks	Market Value
1	9,660,565	Exxon Mobil Corporation	$ 648,223,915
2	15,773,068	General Electric Corporation	556,789,313
3	9,837,836	Citigroup Incorporated	488,645,298
4	7,897,802	Bank of America Corporation	423,085,233
5	13,774,105	Microsoft Corporation	376,446,276
6	12,777,303	Pfizer Incorporated	362,364,319
7	4,883,997	American International Group	323,613,673
8	4,921,834	Procter and Gamble Corporation	305,055,265
9	6,466,967	JP Morgan Chase & Co	303,688,787
10	4,636,892	Johnson and Johnson	301,119,773

Largest Bond Holdings (By Market Value)[1]
September 30, 2006

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 233,013,199	Canadian Imperial Bank 0% Coupon Due 6-14-2007	$ 224,452,294
2	176,157,986	U.S. Treasury Strip 0% Coupon Due 11-15-2011	175,085,184
3	155,824,501	US Bank NA 5.37% FRN Due 4-5-2007	155,963,029
4	147,445,010	Treasury Inflation Index Due 7-15-2014	155,907,497
5	155,538,845	Bank Nova Scotia 5.38188% FRN Due 10-12-2007	155,544,755
6	117,130,227	Wells Fargo & Company 5.42375% FRN Due 9-28-2007	117,239,978
7	117,130,227	Canadian Imperial Bank 5.42% FRN Due 1-5-2007	117,131,633
8	116,654,134	Household Finance Corporation 5.47375% FRN Due 10-22-2007	116,959,651
9	101,100,249	Citigroup Global Markets 5.555% FRN Due 1-30-2007	101,142,004
10	85,546,365	JP Morgan Chase & Co 5.50% FRN Due 1-5-2007	85,594,356

[1]A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

The System's investments are commingled in various pooled accounts. Amounts, par value and number of shares represent the System's pro-rata share based on its ownership of the investment pools.

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 25.9% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to $7,914 thousand or two and five tenths basis points (.025%) of the market value of the Assets under Management of the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding in which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points[1]
State Treasurer	$ 31,993,815	$ 7,914	2.5
Outside Advisors for			
Fixed Income	792,285	168	2.1
Mid Cap Equity	891,985	3,429	38.4
Small Cap Equity	402,607	2,700	67.1
International	1,328,701	2,178	16.4
Alternative	5,413,161	42,855	79.2
Real Estate	2,323,023	2,057	8.9
Total	$ 43,145,577	$ 61,301	214.6

Other Investment Services Fees:

Assets in Custody	$ 41,887,837	$ 1,624
Securities on Loan	6,539,934	1,405

[1]Outside Advisors Fees are netted against income for Fixed Income, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative partnership agreements that define the management fees, the asset management fees range from 150 to 250 basis points of the committed capital. For Real Estate, the asset management fees normally range from 50 to 125 basis points. Alternative and Real Estate fees, in most cases, are included in the net income of the partnership and are not reflected in the Schedule of Fees.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2006						
	Actual Commissions Paid [1]	Actual Number of Shares Traded	Average Commission Rate Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
ADP Clearing & Outsourcing Services, Inc.	$ 506	10,122	$ 0.05	$ 0.02	$ 0.03	$ 202	$ 304
Baird, Robert W., Company Inc.	1,116	22,337	0.05	0.03	0.02	670	446
Banc/America Secur.LLC Montgomey Div.	61,605	1,836,290	0.03	0.01	0.02	18,363	43,242
Bear Stearns & Co Inc.	971,026	40,406,186	0.02	0.01	0.01	404,062	566,964
Bridge Trading	172,615	4,768,593	0.04	0.02	0.02	95,372	77,243
Broadcort Capital	58,197	1,798,535	0.03	0.02	0.01	35,971	22,226
BNY Brokerage Inc.	1,059	21,175	0.05	0.03	0.02	635	423
B-Trade Services LLC	2,047	102,344	0.02	0.01	0.01	1,023	1,023
Cantor Fitzgerald & Co.	303,324	10,032,675	0.03	0.01	0.02	100,327	202,997
CIBC World Market Corp.	15,459	309,178	0.05	0.02	0.03	6,184	9,275
Citigroup Global Markets Inc.	1,268,600	42,699,452	0.03	0.01	0.02	426,995	841,606
Credit Suisse First Boston Corporation	389,851	12,149,024	0.03	0.01	0.02	121,490	268,361
Deutsche Bank Securities Inc.	177,173	5,085,386	0.03	0.01	0.02	50,854	126,319
Friedman Billings Ramsey	1,472	29,436	0.05	0.03	0.02	883	589
Fulcrum Global Partners	5,013	100,258	0.05	0.03	0.02	3,008	2,005
Goldman Sachs	635,715	21,416,596	0.03	0.01	0.02	214,166	421,549
Griswold Company	321,747	16,299,666	0.02	0.01	0.01	162,997	158,750
Howard Weil Division Legg Mason	20,661	516,536	0.04	0.02	0.02	10,331	10,331
Investment Technology Group Inc.	10,715	535,756	0.02	0.01	0.01	5,358	5,357
Instinet	3,196	159,806	0.02	0.01	0.01	1,598	1,598
ISI Group Inc.	198,192	5,323,625	0.04	0.02	0.02	106,473	91,720
Janney Montomgery, Scott Inc.	333	6,657	0.05	0.03	0.02	200	133
J P Morgan Securities Inc.	382,904	10,466,759	0.04	0.02	0.02	209,335	173,569
Jefferies Company Inc.	4,715	112,660	0.04	0.02	0.02	2,253	2,461
Labranche Financial (MARA)	774	38,715	0.02	0.01	0.01	387	387
Leerink Swann & Co.	71,840	1,873,104	0.04	0.02	0.02	37,462	34,378
Lehman Brothers Inc.	861,951	26,780,984	0.03	0.01	0.02	267,810	594,142
Liquidnet Inc.	5,792	289,598	0.02	0.01	0.01	2,896	2,896
Merrill Lynch, Pierce, Fenner & Smith, Inc.	559,158	17,385,609	0.03	0.01	0.02	173,856	385,302
Midwest Research Securities	5,735	114,696	0.05	0.02	0.03	2,294	3,441
Mischler Financial Group, Inc.	29,750	801,941	0.04	0.02	0.02	16,039	13,711
Morgan Keegean Co Inc.	1,700	34,008	0.05	0.02	0.03	680	1,020
Morgan Stanley Co Inc.	767,893	23,662,930	0.03	0.01	0.02	236,629	531,264
OTA Research	120,595	3,357,553	0.04	0.02	0.02	67,151	53,444
Pershing LLC	495	24,757	0.02	0.01	0.01	248	247
Prudential Equity Group	466,099	14,213,770	0.03	0.01	0.02	142,138	323,961
Raymond James and Associates Inc.	6,882	172,040	0.04	0.02	0.02	3,441	3,441
SG Americas Securities LLC	9,135	192,946	0.05	0.03	0.02	5,788	3,346
S.G. Cowen & Co., LLC	236,246	6,771,985	0.03	0.01	0.02	67,720	168,526
Sanford Bernstein Co LLC	282,607	8,717,474	0.03	0.01	0.02	87,175	195,432
Stifel Nicolaus & Co Inc.	6,865	137,289	0.05	0.03	0.02	4,119	2,746
Suntrust Capital Markets Inc.	2,321	66,610	0.03	0.02	0.01	1,332	989
Thomas Weisel Partners	8,283	184,155	0.04	0.02	0.02	3,683	4,600
US Bancorp Piper Jaffray Inc.	769	15,380	0.05	0.03	0.02	461	308
UBS Securities LLC	633,223	20,680,887	0.03	0.01	0.02	206,809	426,415
Wachovia Capital Markets, LLC	3,276	81,914	0.04	0.02	0.02	1,638	1,638
Wayne Company	26,023	650,566	0.04	0.02	0.02	13,011	13,011
Weeden & Co.	2,217	44,342	0.05	0.03	0.02	1,330	887
WR Hambrecht & Co.	76	1,524	0.05	0.03	0.02	46	30
Total	$ 9,116,946	300,503,829	$ 0.03 [2]	$ 0.02	$ 0.01	$ 3,322,893	$ 5,794,053

[1] Commissions are included in purchase and sale prices of investments. The commissions and shares represent the System's pro-rata share (based on ownership) of commission and share transactions in the investment pools.

[2] The average commission rate per share for all brokerage firms.

Investment Summary

Fiscal Year Ended September 30, 2006

	Market Value [a]	Percent of Market Value	Investment & Interest Income [b]	Percent of Investment & Interest Income
Fixed Income Pools	$ 7,050,167,117	16.3%	$ 267,056,100	5.3%
Domestic Equity Pools	20,826,454,404	48.4%	2,027,327,524	40.4%
Real Estate Pool	3,245,483,600	7.5%	558,370,328	11.1%
Alternative Investment Pools	5,491,257,612	12.7%	1,214,358,151	24.2%
International Equities Pools	5,274,474,448	12.2%	891,183,032	17.8%
Short Term Investment Pools	1,257,740,257	2.9%	59,535,561	1.2%
Total	$ 43,145,577,438	100.0%	$ 5,017,830,696	100.0%

[a] Market value excludes $6,711,645,224 in cash collateral for security lending for fiscal year 2006.

[b] Total Investment & Interest Income excludes net security lending income of $5,895,418.

Investment Summary

Fiscal Year Ended September 30, 2005

	Market Value [(a)]	Percent of Market Value	Investment & Interest Income [(b)]	Percent of Investment & Interest Income
Fixed Income:				
Government Bond Pool	$ 3,185,946,919	8.0%	$ 100,652,198	2.2%
Corporate Bond Pool	3,321,128,864	8.4%	69,146,944	1.5%
Total Fixed Income Pools	6,507,075,783	16.4%	169,799,142	3.7%
Equity Pools	19,182,377,877	48.5%	2,049,402,827	44.4%
Real Estate Pool	2,958,413,840	7.5%	369,518,923	8.0%
Alternative Investment Pools	4,596,675,402	11.6%	952,485,347	20.6%
International Equities Pools	4,850,485,435	12.3%	1,044,791,324	22.6%
Short Term Investment Pools	1,473,510,971	3.7%	33,318,022	0.7%
Total	$ 39,568,539,308	100.0%	$ 4,619,315,585	100.0%

[a] Market value excludes $2,222,789,940 in cash collateral for security lending for fiscal year 2005.

[b] Total Investment & Interest Income excludes net security lending income of $3,103,384.

ACTUARIAL SECTION

Actuary's Certification

SEGAL

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Michael J. Karlin, M.A.A.A.
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December 7, 2006

Ms. Lisa Webb Sharpe
Director
Department of Management and Budget and
Retirement Board
Michigan Public School Employees Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan Public School Employees Retirement System (MPSERS) is funded on an actuarial reserve basis. The basic financial objective of MPSERS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MPSERS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2005 included a total of 484,663 members of MPSERS. The actuarial value of MPSERS's assets amounted to approximately $38.21 billion on September 30, 2005.

The assumptions used in the 2005 valuation produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MPSERS as of September 30, 2005 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2005 valuation results, it is also our opinion that the Michigan Public School Employees Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

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Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% long-range investment return rate translates to an assumed real rate of return of 4.5%. Adopted 2004.

2. The healthy life mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 1998.

3. Sample probabilities of regular, unreduced retirement are shown in Schedule 1 on the next page. Adopted 2004.

4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page of this report. Adopted 2004.

5. Total active member payroll is assumed to increase 3.5% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 2004.

6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are funded over 40 years on a declining basis beginning October 1, 1996. Adopted 1996.

7. Valuation assets (cash and investment) were reset to market value as of September 30, 1997. After this date, they will again be valued using a five year smoothed market value method. The excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) that occurs after September 30, 1997, over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1997.

8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Management and Budget after consulting with the actuary.

10. A 5-year experience investigation, covering the period from September 30, 1997 through September 30, 2002 was completed in April 2004. The purpose of the study was to analyze the actual experience of the System versus that anticipated by the actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was a decrease in actuarial accrued liabilities of approximately 1.6% and a 8.3% decrease in computed employer contributions. Adopted 2004.

11. Gabriel Roeder Smith and Co. was awarded the actuarial and consulting services contract beginning October 4, 2006.

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Basic	MIP
50		40 %
52		25
55	35 %	20
58	20	22
61	20	22
64	23	23
67	22	22
70	25	25
71	25	25
72	25	25
73	25	25
74	25	25
75 and over	100	100

SCHEDULE 2

Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

Sample Ages	Years of Service	Percent of Active Members Withdrawing Within Next Year (Men and Women)	Percent of Active Members Becoming Disabled Within Next Year	Percent Increase In Pay During Next Year
All	0	28.00 %		
	1	15.00		
	2	9.00		
	3	7.00		
	4	5.50		
25	5 & Over	5.00	.01 %	12.30 %
35		2.65	.02	7.18
45		1.60	.13	5.21
55		1.40	.33	3.81
60		1.40	.45	3.50

Actuarial Valuation Data

Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1996	295,096	$ 7,807,029	$ 26,456	3.1 %	43.6	9.9
1997	295,691	8,027,450	27,148	2.6	43.6	10.0
1998	302,016	8,265,463	27,368	0.8	43.5	9.7
1999	309,324	8,643,718	27,944	2.1	43.6	9.5
2000	312,699	8,984,737	28,733	2.8	43.6	9.7
2001	318,538	9,264,183	29,083	1.2	43.6	9.6
2002	326,350	9,707,281	29,745	2.3	43.6	9.5
2003	326,938	10,043,862	30,721	3.3	43.8	9.7
2004	322,494	10,407,072	32,271	5.0	43.8	9.7
2005	316,151	10,205,972	32,282	0.0	43.7	9.7

* In thousands of dollars.

Schedule of Changes in the Retirement Rolls

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances*		
1996	7,443	$ 135,326	3,129	$ 25,487	107,465	$ 1,251,811	9.6 %	$ 11,649
1997	7,691	147,433	3,314	27,765	111,842	1,371,479	9.6	12,263
1998	8,384	165,312	3,606	31,429	116,620	1,505,362	9.8	12,908
1999	7,842	166,104	3,549	31,641	120,913	1,639,825	8.9	13,562
2000	8,816	185,545	3,614	27,342	126,115	1,798,028	9.6	14,257
2001	8,125	146,907	3,450	1,491	130,790	1,943,444	8.1	14,859
2002	8,187	154,958	3,700	4,020	135,277	2,094,382	7.8	15,482
2003**	8,512	163,752	3,975	6,368	139,814	2,251,766	7.5	16,105
2004	9,824	197,680	4,260	17,810	145,378	2,431,636	8.0	16,726
2005	10,165	249,907	3,837	36,843	151,706	2,644,700	8.8	17,433

* In thousands of dollars.

Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

($ in millions)

	Actuarial Accrued Liability (AAL)							
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of AAL Covered by Assets (1)	(2)	(3)	(4)[1]
1996	$ 2,261	$ 12,590	$ 13,720	$ 22,529	100 %	100 %	56.0 %	78.9 %
1997	2,500	14,303	13,376	25,485	100	100	64.9	84.4
1997 [2,3]	2,500	14,303	12,989	30,051	100	100	102.0	100.9
1998	2,505	15,689	13,943	31,870	100	100	98.1	99.2
1998 [3]	2,505	15,888	14,470	31,870	100	100	93.1	97.0
1999	2,706	17,291	14,351	34,095	100	100	98.2	99.3
2000	2,932	19,200	15,007	36,893	100	100	98.4	99.3
2001	3,244	20,943	15,587	38,399	100	100	91.2	96.5
2002	3,490	22,480	15,987	38,382	100	100	77.6	91.5
2003	3,720	24,080	16,969	38,726	100	100	64.4	86.5
2004	3,800	26,178	16,339	38,784	100	100	53.9	83.7
2005	3,898	28,047	16,261	38,211	100	100	38.5	79.3

[1] Percents funded on a total valuation asset and total actuarial accrued liability basis.

[2] Revised asset valuation method.

[3] Revised actuarial assumptions.

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2005
Resulting from Differences Between Assumed Experience & Actual Experience

	Type of Activity	Gain/(Loss)
1.	**Retirements (including Disability Retirement).** If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$ 64,636,845
2.	**Withdrawal From Employment** (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	26,014,588
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	68,732,788
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(2,085,531,857)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(84,227,707)
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss.	(68,324,763)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	211,130,902
8.	**Composite Gain (or Loss) During Year**	$ (1,867,569,204)

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2005, is based on the present provisions of the Michigan Public School Employees' Retirement Act (Act 300 of 1980, as amended).

Regular Retirement (no reduction factor for age)

Eligibility — Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years.

Mandatory Retirement Age — None.

Annual Amount — Total credited service times 1.5% of final average compensation.

Final Average Compensation — Average of highest 5 consecutive years (3 years for MIP members).

Early Retirement (age reduction factor used)

Eligibility — Age 55 with 15 or more years credited service and earned credited service in each of the last 5 years.

Annual Amount — Regular retirement benefit, reduced by 1/2% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility — 10 years of credited service. Benefit commences at the time age qualification is met.

Annual Amount — Regular retirement benefit based on service and final average compensation at time of termination.

Duty Disability Retirement

Eligibility — No age or service requirement; in receipt of workers' disability compensation.

Annual Amount — Computed as regular retirement benefit with minimum benefit based on 10 years credited service. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Non-Duty Disability Retirement

Eligibility — 10 years of credited service.

Annual Amount — Computed as regular retirement benefit based on credited service and final average compensation at time of disability. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Summary of Plan Provisions (Continued)

Duty Death Before Retirement

Eligibility — No age or service requirement. Beneficiary is in receipt of workers' compensation. Also applies to "duty disability" retirees during first three years of disability.

Annual Amount — Spouse benefit computed as regular retirement benefit with minimum benefit based on ten years of credited service, reduced for 100% joint and survivor election. If no surviving spouse, children under 18 share in benefit; if no spouse or children, a disabled and dependent parent is eligible.

Non-Duty Death Before Retirement

Eligibility — 15 years of credited service, or age 60 and 10 years of credited service. 10 years of credited service, or age 60 and 5 years of credited service for MIP members.

Annual Amount — Computed as regular retirement benefit, reduced in accordance with a 100% joint and survivor election, with payments commencing first of month following death. For the beneficiary of a deferred member, benefit commences at the time a member would have attained the minimum age qualification.

Post-Retirement Cost-of-Living Adjustments

One-time upward adjustments have been made in 1972, 1974, 1976 and 1977 for members retired on or after July 1, 1956, and prior to July 1, 1976, who were eligible for Social Security benefits. For members who retired prior to July 1, 1956, and not eligible for Social Security benefits based upon membership service, the minimum base pension was increased in 1965, 1971, 1972, 1974 and 1981, and in 1976 and 1977 one-time upward adjustments were made.

Beginning in 1983, eligible recipients received an annual distribution of investment earnings in excess of 8% (supplemental payment). On January 1, 1986, all members who retired prior to January 1, 1986, were given a permanent 8% increase. On January 1, 1990, a one-time upward adjustment for members who retired prior to October 1, 1981, was made.

Currently members receive annual increases based on the following schedule:

Retired before January 1, 1987 - Greater of Supplemental payment or automatic 3% increase
Retired on or after January 1, 1987 under MIP - Automatic 3% increase only
Retired on or after January 1, 1987 not under MIP - Supplemental payment only

Post-Retirement Health Benefits

Members in receipt of pension benefits are eligible for fully System paid Master Health Care Plan coverage (90% System paid Dental Plan, Vision Plan and Hearing Plan coverage) with the following exceptions:

1. Members not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.

2. Members with less than 30 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for partially System paid health benefit coverage (no System payment if less than 21 years service).

Dependents are eligible for 90% System paid health benefit coverage (partial System payment for dependents of deferred vested members who had 21 or more years of service).

Summary of Plan Provisions (Continued)

Member Contributions

MIP Participants hired before January 1, 1990 — 3.9% of pay.

MIP Participants hired on or after January 1, 1990 — 3.0% of first $5,000 of pay, plus 3.6% of next $10,000 of pay, plus 4.3% pay in excess of $15,000.

Non-MIP Participants — None.

STATISTICAL SECTION

STATISTICAL SECTION

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years. Schedules included are:

- Schedule of Pension Plan Revenues by Source
- Schedule of Health Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of Health Plan Expenses by Type
- Schedule of Changes in Net Assets - Pension Plan
- Schedule of Changes in Net Assets - Health Plan
- Schedule of Benefit and Refund Deductions by Type

Operating Information

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Health Benefit
- Schedule of Health Benefits
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments – Dental/Vision
- Schedule of Principal Participating Employers
- Ten Year History of Membership

Schedule of Pension Plan Revenues by Source

Last Ten Years

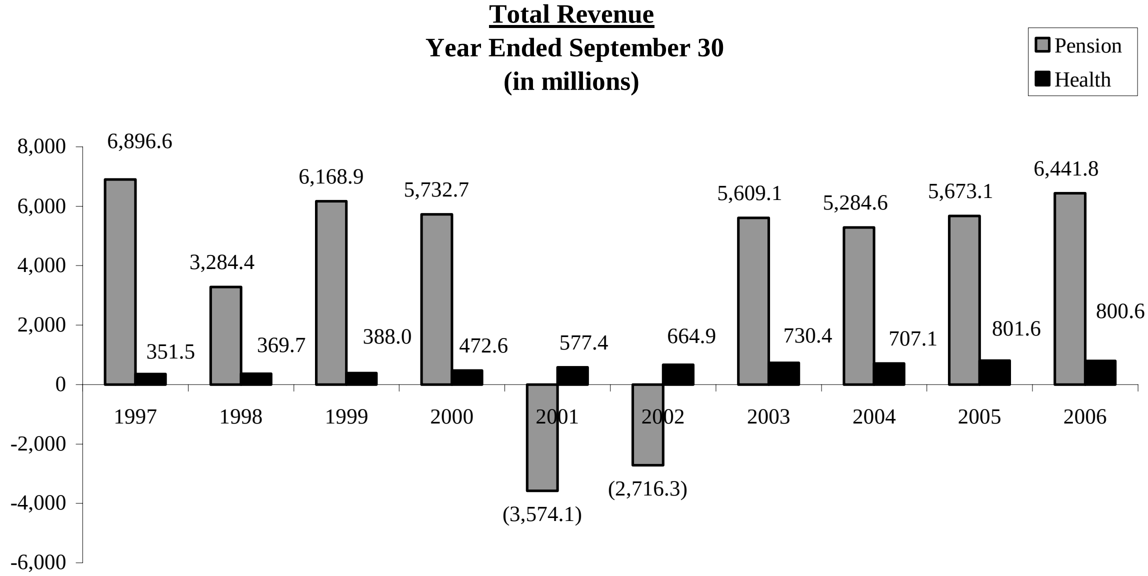
Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1997	$ 253,358,290	$ 904,817,513	11.27 %	$ 5,738,458,322	$ 6,896,634,125
1998	252,672,436	622,437,022	7.53	2,409,304,679	3,284,414,137
1999	518,861,556	574,436,929	6.65	5,075,649,100	6,168,947,585
2000	321,557,146	655,258,922	7.29	4,755,872,070	5,732,688,138
2001	371,548,016	629,924,827	6.80	(4,575,630,855)	(3,574,158,012)
2002	413,163,871	603,949,327	6.22	(3,733,441,844)	(2,716,328,646)
2003	379,084,549	697,906,265	6.95	4,532,071,835	5,609,062,649
2004	456,352,606	697,647,338	6.70	4,130,661,746	5,284,661,690
2005	368,240,837	774,277,778	7.59	4,530,621,088	5,673,139,703
2006	518,599,720	995,932,424	N/A	4,927,244,717	6,441,776,861

Schedule of Health Plan Revenues by Source

Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions Dollars	Employer Contributions % of Annual Covered Payroll	Net Investment & Other Income	Total
1997	$ 25,219,853	$ 317,455,783	5.70 %	$ 8,834,244	$ 351,509,880
1998	27,709,644	331,557,120	4.01	10,471,271	369,738,035
1999	30,397,928	346,164,992	4.01	11,437,005	387,999,925
2000	33,672,843	428,996,628	4.77	9,959,633	472,629,104
2001	38,485,260	528,272,325	5.70	10,663,468	577,421,053
2002	43,217,520	604,628,018	6.23	17,043,097	664,888,635
2003	47,394,003	657,408,261	6.55	25,584,076	730,386,340
2004	52,765,881	618,831,102	5.95	35,482,578	707,079,561
2005	62,507,616	700,366,743	6.86	38,718,254	801,592,613
2006	71,813,553	686,929,558	N/A	41,909,987	800,653,098

Total Revenue
Year Ended September 30
(in millions)



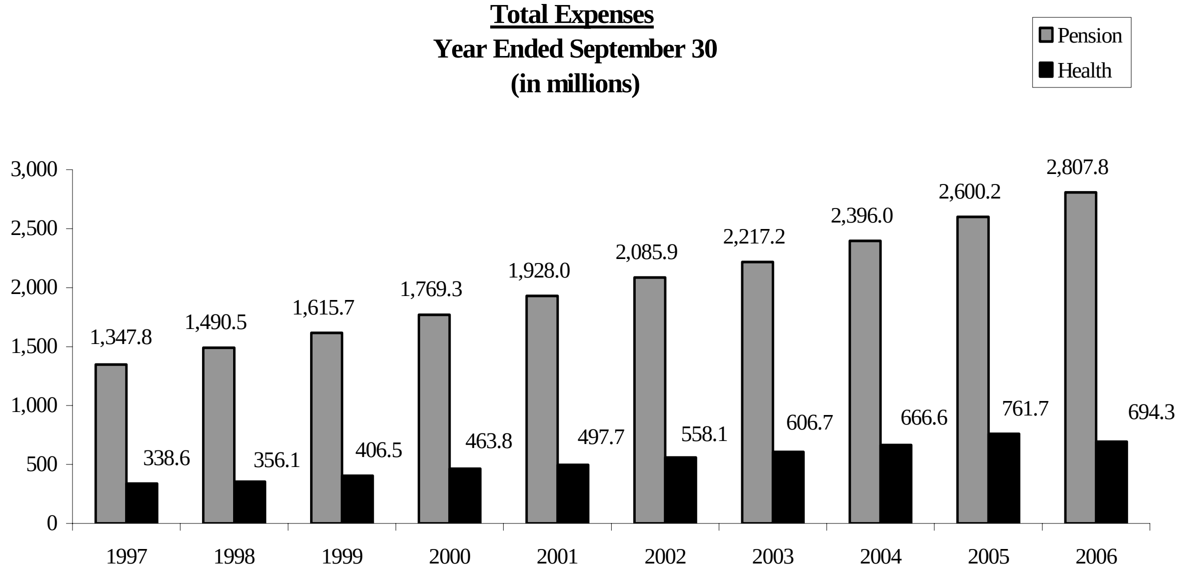
Schedule of Pension Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
1997	$ 1,317,828,100	$ 17,859,063	$ 12,102,095	$ 1,347,789,258
1998	1,454,451,439	21,626,704	14,463,339	1,490,541,482
1999	1,587,992,361	11,198,300	16,525,359	1,615,716,020
2000	1,735,936,328	17,455,802	15,918,143	1,769,310,273
2001	1,890,812,400	19,835,729	17,312,250	1,927,960,379
2002	2,041,439,863	20,813,845	23,610,482	2,085,864,190
2003	2,180,574,193	13,642,300	23,016,963	2,217,233,456
2004	2,358,216,073	18,422,941	19,374,673	2,396,013,687
2005	2,558,017,710	22,181,312	19,997,954	2,600,196,976
2006	2,761,292,217	24,026,881	22,501,098	2,807,820,196

Schedule of Health Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
1997	$ 308,029,716	$ 45,539	$ 30,584,381	$ 338,659,636
1998	323,845,667	(374,557)	32,594,836	356,065,946
1999	372,021,209		34,445,866	406,467,075
2000	425,760,691	30,902	38,039,572	463,831,165
2001	456,257,416	72,407	41,379,358	497,709,181
2002	513,171,821	67,115	44,853,969	558,092,905
2003	558,682,921	64,411	47,907,745	606,655,077
2004	615,416,903	97,849	51,118,851	666,633,603
2005	705,983,783	192,144	55,520,031	761,695,958
2006	634,811,847	42,369	59,459,690	694,313,906

Total Expenses
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets-Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Member contributions	$ 253,358	$ 252,672	$ 518,862	$ 321,557	$ 371,548	$ 413,164	$ 379,085	$ 456,353	$ 368,241	$ 518,600
Employer contributions	904,818	622,437	574,436	655,259	629,924	603,949	697,906	697,647	774,277	995,932
Other governmental contributions										65
Net investment income	5,738,458	2,409,304	5,075,559	4,755,474	(4,575,768)	(3,733,567)	4,532,030	4,130,610	4,530,600	4,926,708
Tranfer from other systems								20	15	3
Miscellaneous income		1	90	398	138	125	42	32	7	469
Total Additions	$ 6,896,634	$ 3,284,414	$ 6,168,947	$ 5,732,688	$ (3,574,158)	$ (2,716,329)	$ 5,609,063	$ 5,284,662	$ 5,673,140	$ 6,441,777
Pension benefits	$ 1,317,828	$ 1,454,451	$ 1,587,992	$ 1,735,936	$ 1,890,812	$ 2,041,440	$ 2,180,574	$ 2,358,216	$ 2,558,018	$ 2,761,292
Refunds of member contributions	17,835	21,576	11,146	17,353	19,836	20,814	13,642	18,397	22,062	23,904
Tranfer to other systems	24	51	53	102	17,312			26	119	123
Administrative expenses	12,102	14,463	16,525	15,918		23,610	23,017	19,375	19,998	22,501
Total Deductions	$ 1,347,789	$ 1,490,541	$ 1,615,716	$ 1,769,309	$ 1,927,960	$ 2,085,864	$ 2,217,233	$ 2,396,014	$ 2,600,197	$ 2,807,820
Changes in net assets	$ 5,548,845	$ 1,793,873	$ 4,553,231	$ 3,963,379	$ (5,502,118)	$ (4,802,193)	$ 3,391,830	$ 2,888,648	$ 3,072,943	$ 3,633,957

Schedule of Changes in Net Assets - Health Plan

Last Ten Years

(in thousands)

	Fiscal Year 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Member contributions	$ 25,220	$ 27,710	$ 30,398	$ 33,673	$ 38,485	$ 43,218	$ 47,394	$ 52,766	$ 62,508	$ 71,814
Employer contributions	317,456	331,557	346,165	428,997	528,273	604,628	657,409	618,831	700,366	686,929
Net investment income	8,834	10,471	11,437	9,959	10,663	17,040	25,584	35,483	38,718	41,910
Miscellaneous income						3				
Total Additions	$ 351,510	$ 369,738	$ 388,000	$ 472,629	$ 577,421	$ 664,889	$ 730,387	$ 707,080	$ 801,592	$ 800,653
Health care benefits	$ 308,030	$ 323,846	$ 372,021	$ 425,760	$ 456,257	$ 513,172	$ 558,683	$ 615,417	$ 705,983	$ 634,812
Refunds of member contributions	46	(375)		31	72	67	64	98	192	42
Administrative expenses	30,584	32,595	34,446	38,040	41,379	44,854	47,908	51,119	55,520	59,460
Total Deductions	$ 338,660	$ 356,066	$ 406,467	$ 463,831	$ 497,708	$ 558,093	$ 606,655	$ 666,634	$ 761,695	$ 694,314
Changes in net assets	$ 12,850	$ 13,672	$ (18,467)	$ 8,798	$ 79,713	$ 106,796	$ 123,732	$ 40,446	$ 39,897	$ 106,339

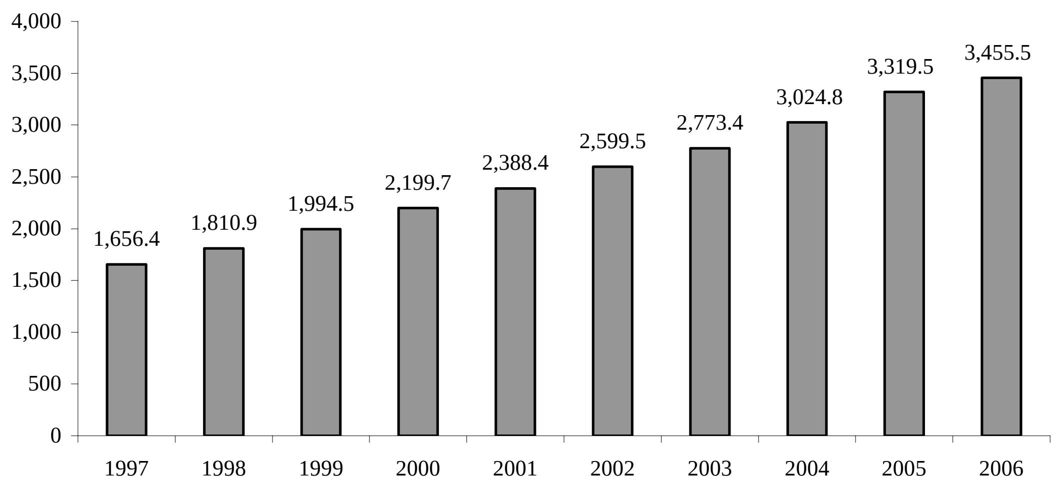
Schedule of Benefit and Refund Deductions by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Survivor Benefits	Supplemental Check	Health Benefits**	Total	Refunds
1997	$ 1,274,469,892	$ 37,129,588		$ 6,228,620	$ 338,614,097	$ 1,656,442,197	$ 17,881,050
1998	1,412,550,359	35,908,817		5,992,263	356,440,503	1,810,891,942	21,201,031
1999	1,540,039,404	38,546,646		9,406,311	406,467,075	1,994,459,436	11,145,521
2000	1,684,018,116	40,453,574		11,464,638	463,800,263	2,199,736,591	17,384,253
2001	1,831,809,193	45,203,866		13,799,341	497,636,774	2,388,449,174	19,908,136
2002	1,976,611,796	48,253,882		16,574,185	558,025,790	2,599,465,653	20,880,960
2003	2,115,423,232	51,351,620			606,590,666	2,773,365,518	13,706,711
2004	2,304,740,438	53,475,635			666,535,754	3,024,751,827	18,494,863
2005	2,500,815,986	57,201,724			761,503,814	3,319,521,524	22,253,862
2006	2,573,912,215	52,500,929	$ 134,879,074		694,271,537	3,455,563,754	23,946,191

*Includes prior post retirement adjustments

**Includes dental and vision benefits and their associated administrative costs.

Total Benefit Expenses
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit

September 30, 2005

Amount Monthly Benefit	Number of Retirees	Type of Retirement * 1	2	3	4	5	6	Selected Option** Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt.1E 2E,3E,4E
$ 1-200	13,486	11,646	1,065	110	469	1	195	7,866	2,632	1,890	87	1,011
201-400	19,204	15,791	1,508	124	1,362	1	418	10,925	3,739	3,151	179	1,210
401-600	14,216	11,543	1,097	72	1,070	2	432	7,678	2,948	2,523	187	880
601-800	10,972	8,845	851	46	824		406	5,656	2,209	2,087	167	853
801-1000	8,877	7,177	735	22	559		384	4,321	1,852	1,710	151	843
1001-1200	7,727	6,407	603	17	424		276	3,552	1,626	1,387	137	1,025
1201-1400	7,094	5,972	540	7	329		246	2,915	1,553	1,269	126	1,231
1401-1600	6,742	5,861	428	3	247		203	2,704	1,487	1,088	140	1,323
1601-1800	6,789	6,031	365	2	226		165	2,570	1,643	1,182	181	1,213
1801-2000	7,029	6,389	318	7	145		170	2,637	1,865	1,286	260	981
over 2000	49,570	47,902	1,000	7	225	1	435	21,106	9,622	10,171	2467	6,204
Totals	151,706	133,564	8,510	417	5,880	5	3,330	71,930	31,176	27,744	4,082	16,774

* Type of Retirement
1 - Normal retirement for age & service
2 - Survivor payment - normal retirement
3 - Duty disability retirement
4 - Non-duty disability retirement
5 - Survivor payment - duty death in service
6 - Survivor payment - non-duty death in service

**Selected Option
Opt. 1. - Straight life allowance
Opt. 2 - 100% survivor option
Opt. 3 - 50% survivor option
Opt. 4 - 75% survivor option
Opt. 1E, 2E, 3E, 4E - Equated retirement plans

Source: The Segal Company

Schedule of Retired Members by Type of Health Benefit

September 30, 2005

		Type of Other Post - Employment Benefits	
Amount of Monthly Benefit	**Eligible Retirees**	**Health**	**Dental/Vision**
$ 1 – 200	13,486	7,615	8,333
201 – 400	19,204	12,565	13,534
401 – 600	14,216	10,135	10,780
601 – 800	10,972	8,256	8,735
801 – 1,000	8,877	6,902	7,258
1,001 – 1,200	7,727	6,102	6,415
1,201 – 1,400	7,094	5,680	5,962
1,401 – 1,600	6,742	5,548	5,807
1,601 – 1,800	6,789	5,561	5,813
1,801 – 2,000	7,029	5,759	6,082
Over 2,000	49,570	41,461	43,534
Totals	151,706	115,584 *	122,253 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Health Benefits

For Years Ended September 30, 2006 and 2005

	2006	2005
Claims		
Health Insurance	$ 512,937,409	$ 585,316,478
Vision Insurance	7,334,013	6,691,135
Dental Insurance	60,089,425	55,369,170
Total Claims	580,360,847	647,376,783
IBNR (Incurred but not reported claims)		
Health Insurance	52,324,000	56,300,000
Vision Insurance	364,000	300,000
Dental Insurance	1,763,000	2,007,000
Total IBNR	54,451,000	58,607,000
Administrative Fees		
Health Insurance	54,335,949	50,583,117
Vision Insurance	170,451	988,066
Dental Insurance	4,953,290	3,948,848
Total Administrative Fees	59,459,690	55,520,031
Subtotal	694,271,537	761,503,814
Refunds	42,369	192,144
Grand Total	$ 694,313,906	$ 761,695,958

Schedule of Average Benefit Payments - Pension
Last Ten Years

Payment Periods	Credited Service (Years)							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/95 to 9/30/96:								
Average Monthly Benefit	$ 336	$ 131	$ 224	$ 411	$ 683	$ 1,030	$ 1,694	$ 971
Average Final Average Salary	5,151	13,787	12,373	16,852	22,019	26,608	36,341	25,327
Number of Active Retirants	277	2,729	15,659	18,519	17,082	13,615	39,584	107,465
Period 10/1/96 to 9/30/97:								
Average Monthly Benefit	$ 359	$ 134	$ 230	$ 424	$ 703	$ 1,064	$ 1,779	$ 1,022
Average Final Average Salary	4,725	13,993	12,738	17,348	22,636	27,515	38,285	26,540
Number of Active Retirants	333	2,742	15,893	18,982	17,724	13,941	42,027	111,642
Period 10/1/97 to 9/30/98:								
Average Monthly Benefit	$ 390	$ 139	$ 238	$ 438	$ 726	$ 1,097	$ 1,864	$ 1,076
Average Final Average Salary	4,043	14,351	13,165	17,927	23,340	28,399	40,260	27,831
Number of Active Retirants	416	3,136	16,145	19,479	18,358	14,337	44,749	116,620
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	$ 439	$ 143	$ 246	$ 452	$ 746	$ 1,131	$ 1,944	$ 1,130
Average Final Average Salary	3,467	14,633	13,635	18,462	23,931	29,187	42,081	29,072
Number of Active Retirants	528	3,338	16,299	19,815	18,838	14,535	47,560	120,913
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	$ 480	$ 147	$ 255	$ 466	$ 769	$ 1,167	$ 2,024	$ 1,188
Average Final Average Salary	2,964	14,900	14,121	19,103	24,654	29,984	43,957	30,424
Number of Active Retirants	666	3,545	16,545	20,206	19,332	14,839	50,982	126,115
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	$ 500	$ 154	$ 268	$ 483	$ 793	$ 1,201	$ 2,092	$ 1,238
Average Final Average Salary	2,492	15,236	14,669	19,730	25,420	30,751	45,564	31,613
Number of Active Retirants	814	3,783	16,842	20,543	19,844	15,128	53,836	130,790
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	$ 527	$ 154	$ 272	$ 495	$ 815	$ 1,237	$ 2,166	$ 1,290
Average Final Average Salary	2,171	15,438	15,160	20,407	26,097	31,542	47,124	32,795
Number of Active Retirants	934	3,951	17,068	20,977	20,201	15,427	56,719	135,277
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	$ 543	$ 159	$ 280	$ 510	$ 837	$ 1,273	$ 2,232	$ 1,342
Average Final Average Salary	2,225	15,789	15,635	21,059	26,790	32,349	48,604	34,014
Number of Active Retirants	896	4,139	17,285	21,404	20,533	15,698	59,859	139,814
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	$ 607	$ 181	$ 309	$ 514	$ 881	$ 1,238	$ 2,288	$ 1,394
Average Final Average Salary	1,640	16,138	16,357	21,257	27,798	32,353	50,198	35,268
Number of Active Retirants	1,178	4,386	15,706	23,764	18,842	18,076	63,426	145,378
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	$ 583	$ 170	$ 298	$ 540	$ 887	$ 1,346	$ 2,374	$ 1,453
Average Final Average Salary	1,542	16,607	16,719	22,539	28,288	34,036	50,418	35,938
Number of Active Retirants	1,396	4,601	17,884	22,502	21,321	16,548	67,454	151,706

Source: The Segal Company

Schedule of Average Benefit Payments - Health
September 30, 2005

Payment Periods	Credited Service (Years)							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	114	188	337	587	937	1,678	2,505	1,592
Average Final Average Salary	14,348	16,926	17,732	23,228	28,848	40,434	51,670	38,192
Number of Active Retirants	200	3,602	10,994	15,777	16,341	20,508	48,162	115,584 *

*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Average Benefit Payments - Dental/Vision
September 30, 2005

Payment Periods	Credited Service (Years)							
	0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	121	188	336	582	933	1,685	2,503	1,581
Average Final Average Salary	14,741	16,957	17,768	23,221	28,858	40,661	51,804	38,138
Number of Active Retirants	228	3,858	11,858	16,959	17,352	21,664	50,334	122,253 *

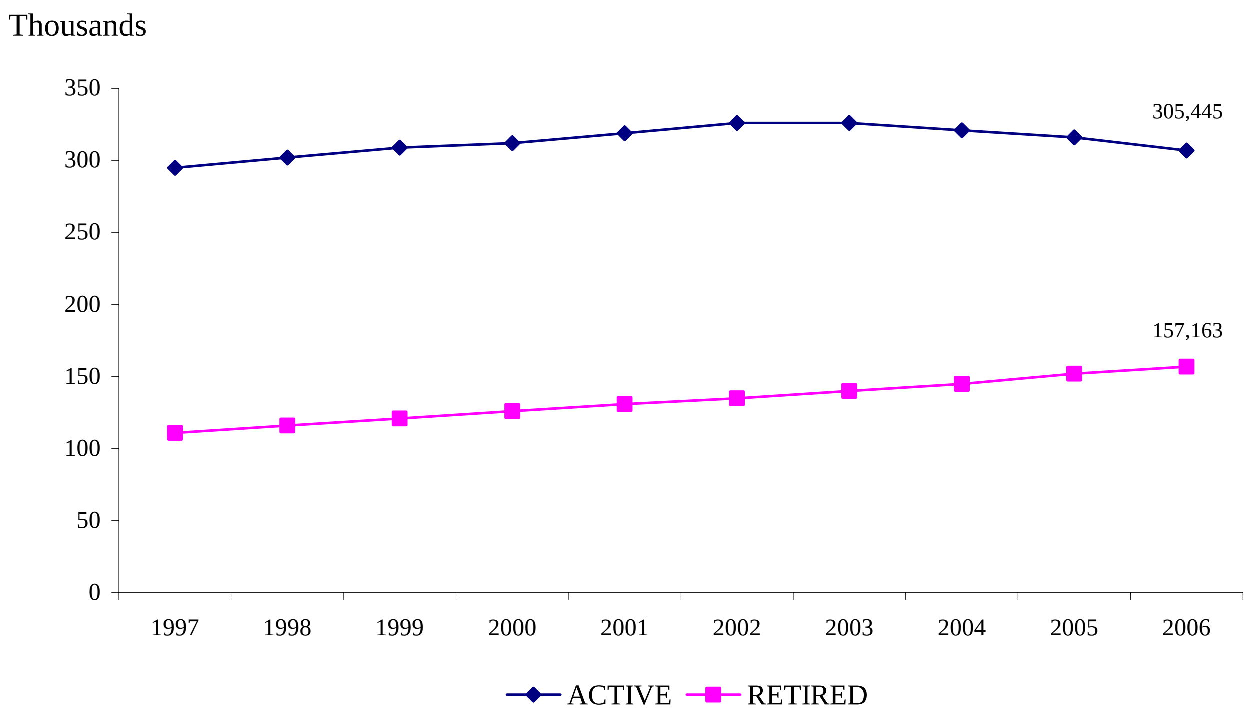
*Participating member totals displayed in this schedule and the information presented in Note 1 of this report may differ. These variances are the result of a mid-year data conversion.

Schedule of Principal Participating Employers
For Fiscal Years Ending September 30, 2005 and 1996

	2005		1996	
Participating Employer	Employees*	Percentage of Total System	Employees*	Percentage of Total System
Detroit Public Schools	21,399	5.17 %	24,605	7.27 %
Utica Community Schools	5,458	1.32	3,952	1.17
Grand Rapids Public Schools	5,269	1.27	5,147	1.52
Flint Community Schools	4,488	1.08	5,354	1.58
Ann Arbor Public Schools	4,394	1.06	4,049	1.20
Lansing Public Schools	3,814	0.92	3,773	1.12
Dearborn Public Schools	3,690	0.89	2,666	0.79
Livonia Public Schools	3,334	0.81	3,060	0.90
Kalamazoo Public Schools	3,239	0.78	3,011	0.89
Plymouth-Canton Community S D	3,212	0.78	2,336	0.69
All other	355,757	85.92	280,287	82.87
Total	414,054	100.00 %	338,240	100.00 %

*Employee totals for principal participating employers may not match the information presented in Note 1 of this report. These variances are the results of a mid-year data conversion.

Ten Year History of Membership
Fiscal Year Ended September 30



Source: The Segal Company

Schedule of Participating Employers through 9/30/06

Universities:

Central Michigan University
Eastern Michigan University
Ferris State University
Lake Superior State University
Michigan Technological University
Northern Michigan University
Western Michigan University

Community Colleges:

Alpena Community College
Bay De Noc Community College
Charles S Mott Community College
Delta College
Glen Oaks Community College
Gogebic Community College
Grand Rapids Community College
Henry Ford Community College
Jackson County Community College
Kalamazoo Valley Community College
Kellogg Community College
Kirtland Community College
Lake Michigan College
Lansing Community College
Macomb Community College
Mid-Michigan Community College
Monroe County Community College
Montcalm Community College
Muskegon Community College
North Central Michigan College
Northwestern Michigan College
Oakland Community College
Schoolcraft Community College
Southwestern Michigan College
St Clair County Community College
Washtenaw Community College
Wayne County Community College
West Shore Community College

Intermediate School Districts:

Allegan County Intermediate School District
Alpena-Montmorency-Alcona E. S. D.
Barry Intermediate School District
Bay-Arenac Intermediate School District
Berrien Intermediate School District
Branch Intermediate School District
C.O.O.R. Intermediate School District
Calhoun Intermediate School District
Charlevoix-Emmet Intermediate School District
Cheboygan-Otsego-Presque Isle ISD
Clare-Gladwin Intermediate School District
Clinton County R. E. S. A.
Copper Country Intermediate School District
Delta-Schoolcraft Intermediate School District
Dickinson-Iron Intermediate School District
Eastern U P Intermediate School District
Eaton Intermediate School District
Genesee Intermediate School District
Gogebic-Ontonagon Intermediate School District
Gratiot-Isabella R. E. S. D.
Hillsdale Intermediate School District
Huron Intermediate School District
Ingham Intermediate School District
Ionia Intermediate School District
Iosco Intermediate School District
Jackson Intermediate School District
Kalamazoo Valley Intermediate School District
Kent Intermediate School District
Lapeer Intermediate School District
Lenawee Intermediate School District
Lewis Cass Intermediate School District
Livingston Intermediate School District
Macomb Intermediate School District
Manistee Intermediate School District
Marquette-Alger Intermediate School District
Mason Lake Intermediate School District
Mecosta-Osceola Intermediate School District
Menominee Intermediate School District
Midland County Ed Service Agency
Monroe Intermediate School District
Montcalm Area Intermediate School District
Muskegon Area Intermediate School District
Newaygo Intermediate School District
Oakland Intermediate School District
Oceana Intermediate School District
Ottawa Area Intermediate School District
Saginaw Intermediate School District
Sanilac Intermediate School District
Shiawassee R. E. S. D.
St. Clair Intermediate School District
St. Joseph Intermediate School District
Traverse Bay Area Intermediate School District
Tuscola Intermediate School District
Van Buren Intermediate School District
Washtenaw Intermediate School District
Wayne R. E. S. A.
Wexford-Missaukee Intermediate School District

Schedule of Participating Employers through 9/30/06 (Continued)

K – 12 School Districts:

Adams Township School District
Adams-Sigel #3 School
Addison Community Schools
Adrian Public Schools
Airport Community Schools
Akron-Fairgrove Schools
Alba Public Schools
Albion Public Schools
Alcona Community Schools
Algonac Community Schools
Allegan Public Schools
Allen Park Public Schools
Allendale Public Schools
Alma Public Schools
Almont Community Schools
Alpena Public Schools
Anchor Bay School District
Ann Arbor Public Schools
Arenac-Eastern High School
Armada Area Schools
Arvon Township Schools
Ashley Community Schools
Athens Area Schools
Atherton Community Schools
Atlanta Community Schools
Au Gres-Sims School District
Autrain-Onota Public Schools
Avondale School District
Bad Axe Public Schools
Baldwin Community Schools
Bangor Public Schools
Bangor Township Schools
Baraga Township Schools
Bark River - Harris Schools
Bath Community Schools
Battle Creek Public Schools
Bay City Public Schools
Beal City Schools
Bear Lake School
Beaver Island Community Schools
Beaverton Rural School District
Bedford Public Schools
Beecher Community School District
Belding Area Schools
Bellaire Public Schools
Bellevue Community Schools
Bendle Public Schools
Bentley Community Schools
Benton Harbor Area Schools
Benzie County Central Schools
Berkley City School District
Berrien Springs Public Schools
Bessemer Area School District
Big Bay De Noc School District
Big Burning-Colfax #1f School
Big Jackson School District
Big Rapids Public Schools
Birch Run Area Schools
Birmingham City Schools
Blissfield Community School District
Bloomfield #7 Frl-Rapson School
Bloomfield Hills School District
Bloomingdale Public Schools
Bois Blanc Township School District
Boyne City Public Schools
Boyne Falls Public Schools
Brandon School District
Brandywine Public Schools
Breckenridge Community Schools
Breitung Township Schools
Bridgeport-Spaulding Comm. School District
Bridgman Public Schools
Brighton Area Schools
Brimley Public Schools
Britton-Macon Area School
Bronson Community Schools
Brown City Community Schools
Buchanan Community Schools
Buckley Community Schools
Buena Vista School District
Bullock Creek School District
Burr Oak Community Schools
Burt Township School District
Byron Area Schools
Byron Center Public Schools
Cadillac Area Public Schools
Caledonia Community Schools
Calumet Public Schools
Camden-Frontier School
Capac Community Schools
Carman-Ainsworth Community School District
Carney-Nadeau Public Schools
Caro Community Schools
Carrollton School District
Carson City-Crystal Area Schools
Carsonville-Port Sanilac School
Caseville Public Schools
Cass City Public Schools
Cassopolis Public Schools
Cedar Springs Public Schools
Center Line Public Schools
Central Lake-Antrim County Public Schools
Central Montcalm Public Schools

Schedule of Participating Employers through 9/30/06 (Continued)

K - 12 School Districts (continued):

Centreville Public Schools
Charlevoix Public Schools
Charlotte Public Schools
Chassell Township Schools
Cheboygan Area School District
Chelsea School District
Chesaning-Union Schools
Chippewa Hills School District
Chippewa Valley Schools
Church School
Clare Public Schools
Clarenceville School District
Clarkston Community Schools
Clawson City School District
Climax-Scotts Community Schools
Clinton Community Schools
Clintondale Community Schools
Clio Area School District
Coldwater Community Schools
Coleman Community Schools
Coloma Community Schools
Colon Community School
Columbia School District
Comstock Park Public Schools
Comstock Public Schools
Concord Community Schools
Constantine Public Schools
Coon-Berlin Township School District #3
Coopersville Public Schools
Corunna Public Schools
Covert Public Schools
Crawford-AuSable School District
Crawford-Excelsior School District #1
Crestwood School District
Croswell-Lexington Schools
Dansville Agricultural School
Davison Community Schools
Dearborn Heights School District #7
Dearborn Public Schools
Decatur Public Schools
Deckerville Community School District
Deerfield Public Schools
Delton-Kellogg Schools
DeTour Area Schools
Detroit Public Schools
Dewitt Public Schools
Dexter Community Schools
Dollar Bay-Tamarack School District
Dowagiac-Union School District
Dryden Community Schools
Dundee Community Schools
Durand Area Schools
East China Township School District
East Detroit School District
East Grand Rapids Public Schools
East Jackson Public Schools
East Jordan Public Schools
East Lansing Public Schools
Eaton Rapids Public Schools
Eau Claire Public Schools
Eccles-Sigel #4 School
Ecorse Public Schools
Edwardsburg Public Schools
Elk Rapids Schools
Ellsworth Community Schools
Elm River Township Schools
Engadine Consolidated School District #4
Escanaba Area Public Schools
Essexville-Hampton Public Schools
Evart Public Schools
Ewen-Trout Creek Consolidated School District
Fairview Area Schools
Farmington Public Schools
Farwell Area Schools
Fennville Public Schools
Fenton Area Public Schools
Ferndale City School District
Fitzgerald Public Schools
Flat Rock Community Schools
Flint City School District
Flushing Community Schools
Forest Area Schools
Forest Hills Public Schools
Forest Park School District
Fowler Public Schools
Fowlerville Community Schools
Frankenmuth School District
Frankfort-Elberta Area Schools
Fraser Public Schools
Free Soil Community School District # 8
Freeland Community Schools
Fremont Public Schools
Fruitport Community Schools
Fulton Schools
Galesburg-Augusta Community School District
Galien Township School
Garden City Public Schools
Gaylord Community Schools
Genesee School District
Gerrish-Higgins School District
Gibraltar School District
Gladstone Area Schools

Schedule of Participating Employers through 9/30/06 (Continued)

K - 12 School Districts (continued):

Gladwin Community Schools
Glen Lake Community Schools
Glenn-Ganges School District #4
Gobles Public Schools
Godfrey-Lee Public Schools
Godwin Heights Public Schools
Goodrich Area Schools
Grand Blanc Community Schools
Grand Haven Public Schools
Grand Ledge Public Schools
Grand Rapids Public Schools
Grandville Public Schools
Grant Public Schools
Grant Township School
Grass Lake Community Schools
Greenville Public Schools
Grosse Ile Township Schools
Grosse Pointe Public Schools
Gull Lake Community Schools
Gwinn Area Community Schools
Hale Area Schools
Hamilton Community Schools
Hamtramck Public Schools
Hancock Public Schools
Hanover Horton School District
Harbor Beach Community School District
Harbor Springs Public Schools
Harper Creek Community Schools
Harper Woods Public Schools
Harrison Community Schools
Hart Public Schools
Hartford Public Schools
Hartland Consolidated Schools
Haslett Public Schools
Hastings Area School District
Haynor- Easton Township School District #6
Hazel Park Public Schools
Hemlock Public Schools
Hesperia Community Schools
Highland Park School District
Hillman Community Schools
Hillsdale Community Schools
Holland Public Schools
Holly Area Schools
Holt Public Schools
Holton Public Schools
Homer Community Schools
Hopkins Public Schools
Houghton Lake Community Schools
Houghton-Portage Township School District
Howell Public Schools
Hudson Area Schools
Hudsonville Public Schools
Huron School District
Huron Valley School District
Ida Public Schools
Imlay City Community Schools
Inkster Public Schools
Inland Lakes Schools
Ionia Public Schools
Iron Mountain Public Schools
Ironwood-Gogebic City Area Schools
Ishpeming Public Schools
Ithaca Public Schools
Jackson Public Schools
Jefferson Schools
Jenison Public Schools
Johannesburg-Lewiston Area Schools
Jonesville Community Schools
Kalamazoo Public Schools
Kaleva Norman Dickson School District
Kalkaska Public Schools
Kearsley Community Schools
Kelloggsville Public Schools
Kenowa Hills Public Schools
Kent City Community Schools
Kentwood Public Schools
Kingsley Area Schools
Kingston Community Schools
Kipper School
L’Anse Creuse Public Schools
L’Anse Public Schools
Laingsburg Community Schools
Lake City Area Schools
Lake Fenton Community School District
Lake Linden-Hubbell Public Schools
Lake Orion Community School #3
Lake Shore Public Schools
Laker Schools
LakeShore Public Schools
Lakeview Community Schools
Lakeview Public Schools
Lakeview School District
Lakeville Community Schools
Lakewood School District
Lamphere Public Schools
Lansing Public Schools
Lapeer Public Schools
Lawrence Public Schools
Lawton Community Schools
Leland Public Schools
Les Cheneaux Community Schools
Leslie Public Schools
Lincoln Consolidated Schools
Lincoln Park Public Schools

Schedule of Participating Employers through 9/30/06 (Continued)

K - 12 School Districts (continued):

Linden Community Schools
Litchfield Community Schools
Littlefield Public Schools
Livonia Public Schools
Lowell Area Schools
Ludington Area Schools
Mackinaw City Public Schools
Mackinac Island Public Schools
Madison District Public Schools
Madison School District #2
Mancelona Public Schools
Manchester Community Schools
Manistee Public Schools
Manistique Area Schools
Manton Consolidated School District
Maple Valley Schools
Mar Lee School District
Marcellus Community Schools
Marion Public Schools
Marlette Community Schools
Marquette Area Public Schools
Marshall Public Schools
Martin Public Schools
Marysville Public Schools
Mason Co.-Eastern-Custer #5 School District
Mason Consolidated Schools
Mason County Central School District
Mason Public Schools
Mattawan Consolidated Schools
Mayville Community Schools
McBain Rural Agricultural School
Melvindale-Northern Allen Park School District
Memphis Community Schools
Mendon Community School
Menominee Area Public Schools
Meridian Public Schools
Merrill Community Schools
Mesick Consolidated Schools
Michigan Center School District
Mid Peninsula Schools
Midland City Schools
Milan Area Schools
Millington Community School District
Mio-Ausable Schools
Mona Shores School District #29
Monroe Public Schools
Montabella Community Schools
Montague Area Public Schools
Montrose Community Schools
Moran Township School District
Morenci Area Schools
Morley-Stanwood Community Schools
Morrice Area Schools
Mt Clemens Community Schools
Mt Morris Consolidated Schools
Mt Pleasant Public Schools
Munising Public Schools
Muskegon City Public Schools
Muskegon Heights City Public Schools
Napoleon Comm. School District
Negaunee Public Schools
New Buffalo Area Schools
New Haven Community Schools
New Lothrup Area Public Schools
Newaygo Public Schools
Nice Community Schools
Niles Public Schools
North Adams-Jerome Public Schools
North Branch Area Schools
North Central Area Schools
North Dickinson School
North Huron Schools
North Levalley School #2
North Muskegon Public Schools
Northport Public Schools
Northview Public Schools
Northville Public Schools
Northwest School District
Norway-Vulcan Area Schools
Nottawa Community Schools
Novi Community School District
Oak Park School District
Oakridge Public Schools
Okemos Public Schools
Olivet Community Schools
Onaway Area Community Schools
Onekama Consolidated Schools
Onsted Community Schools
Ontonagon Area School District
Orchard View Schools
Oscoda Area Schools
Otsego Public Schools
Ovid-Elsie Area Schools
Owendale-Gagetown Area Schools
Owosso Public Schools
Oxford Area Community Schools
Palo Community Schools
Parchment School District
Paw Paw Public Schools
Peck Community Schools
Pellston Public Schools
Pennfield Schools

Schedule of Participating Employers through 9/30/06 (Continued)

K - 12 School Districts (continued):

Pentwater Public Schools
Perry Public Schools
Petoskey Public Schools
Pewamo-Westphalia Comm School District
Pickford Public Schools
Pinckney Community Schools
Pinconning Area Schools
Pine River Area Schools
Pittsford Area Schools
Plainwell Community Schools
Plymouth-Canton Community School District
Pontiac City School District
Port Hope Community Schools
Port Huron Area Schools
Portage Public Schools
Portland Public Schools
Posen Consolidated Schools
Potterville Public Schools
Powell Township School District
Quincy Community Schools
Rapid River Public Schools
Ravenna Public Schools #24
Reading Community Schools
Redford-Union School District #1
Reed City Public School District
Reese Public Schools
Reeths-Puffer Schools
Republic-Michigamme Schools
Richmond Community Schools
River Rouge Public Schools
River School
River Valley School District
Riverside-Hagar School District #6
Riverview Public Schools
Rochester Community Schools
Rockford Public Schools
Rogers City Area Schools
Romeo Community Schools
Romulus Community Schools
Roseville Community Schools
Royal Oak City School District
Rudyard Public Schools
Saginaw City Schools
Saginaw Township Community Schools
Saline Area Schools
Sand Creek Community Schools
Sandusky Community Schools
Saranac Community Schools
Saugatuck Public Schools
Sault Ste Marie Public Schools
Schoolcraft Community Schools
Shelby Public Schools
Shepherd Public Schools
South Haven Public Schools
South Lake Public Schools
South Lyon Community Schools
South Redford School District
Southfield Public Schools
Southgate Community School District
Sparta Area Schools
Spring Lake Public Schools
Springport Public Schools
St Charles Community Schools
St Ignace Public Schools
St Johns Public Schools
St Joseph Public Schools
St Louis Public Schools
Standish-Sterling Community School District
Stanton Twnshp. Public Schools
Stephenson Area Public Schools
Stockbridge Community Schools
Strange-Oneida School #3
Sturgis Public Schools
Summerfield Schools
Superior Central School District
Suttons Bay Public Schools
Swan Valley School District
Swartz Creek Community Schools
Tahquamenon Area School District
Tawas Area Schools
Taylor Township Schools
Tecumseh Public Schools
Tekonsha Community Schools
Thornapple-Kellogg School
Three Rivers Community Schools
Traverse City Public Schools
Trenton Public Schools
Tri-County Area Schools
Troy City School District
Ubly Community Schools
Union City Community Schools
Unionville-Sebewaing Area Schools
Utica Community Schools
Van Buren Public Schools
Vanderbilt Area Schools
Vandercook Lake Public Schools
Vandyke Public Schools
Vassar Public Schools
Verona Mills School
Vestaburg Community Schools
Vicksburg Community Schools
Wakefield Township Schools
Walden Green Day School

Schedule of Participating Employers through 9/30/06 (Continued)

K - 12 School Districts (continued):

Waldron Area Schools
Walkerville Rural Community School District
Walled Lake Consolidated Schools
Warren Consolidated Schools
Warren Woods Public Schools
Waterford School District
Watersmeet Township School District
Watervliet Public Schools
Waverly Community Schools
Wayland Union Schools
Wayne-Westland Community Schools
Webberville Community Schools
Wells Township School #18
West Bloomfield Schools
West Branch-Rose City Area Schools
West Iron County Public Schools
West Ottawa Public Schools
Western School District
Westwood Community Schools
Westwood Heights Schools
White Cloud Public Schools
White Pigeon Community Schools
White Pine School District
Whitefish Township School
Whiteford Agricultural School
Whitehall District Schools
Whitmore Lake Public Schools
Whittemore-Prescott Area Schools
Williamston Community Schools
Willow Run Community Schools
Windover High School
Wolverine Community Schools
Wood School District #8
Woodhaven-Brownstown School District
Wyandotte Public Schools
Wyoming Public Schools
Yale Public School District
Ypsilanti Public Schools
Zeeland Public Schools

Public School Academies:

Academic Transitional Academy of St. Clair
Academy for Plastics Manufacturing Technology
Academy of Style
AGBU Alex & Marie Manoogian School
Ann Arbor Learning Community
Arts Academy in the Woods
Bay-Arenac Community High School
Ben Ross Public School Academy
Blue Water Learning Academy
Casman Alternative Academy
Central Academy
Cole Academy
Colin Powell Academy
Commonwealth Community Development Academy
Concord Academy
Concord Academy Antrim
Countryside Charter School
Creative Technologies Academy
Da Vinci Institute
Dearborn Academy
Detroit Academy of Arts & Sciences
Detroit Community High School
Discovery Elementary School
Edison Oakland Public School Academy
Edison Public School Academy
El-Hajj Malik El-Shabazz Academy
Gateway Middle High School
Gaudior Academy
Grand Rapids Child Discovery Center
Health Career Academy of St Clair Co
Henry Ford Academy
Holly Academy
Honey Creek Community School
Hope Academy
Horizons Community High School
Hospitality Academy of St. Clair County
Industrial Technology Academy
Information Technology Academy of St Clair County
International Academy of Flint
Joseph K Lumsden Public School Academy
Lakeshore Public Academy
Macomb Academy
Martin Luther King, Jr. Public School Academy
Mid-Michigan Public School Academy
Nah Tah Wahsh Public School Academy
Nataki Talibah School of Detroit
New Beginnings Academy
New Branches School
North Star Academy
Outlook Academy
Plymouth Educational Center Charter School
Public Safety Academy of St. Clair County
Riverside Academy
Sankofa Shule
St. Clair County Learning Academy
Summit Academy
Washtenaw Technical Middle College

Schedule of Participating Employers through 9/30/06 (Continued)

Public School Academies (Continued):

Woodland Park Academy
YMCA Service Learning Academy

Libraries:

Ann Arbor District Library
Bacon Memorial District Library
Cheboygan Area Public Library
Flint Public Library
Grosse Pointe Public Library
Hackley Public Library
Houghton Lake Public Library
Kalamazoo Public Library
Public Libraries of Saginaw
Tecumseh Public Library
Willard District Library

ACKNOWLEDGMENTS

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The report may be viewed on-line at: www.michigan.gov/ors