<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, 2007

M P S E R S

Prepared by:
Financial Services
For
Office of Retirement Services
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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, 2006

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.

President

Executive Director

Public Pension Standards Award

Public Pension Coordinating Council

Public Pension Standards

2007 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

INTRODUCTORY SECTION

Letter of Transmittal

Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517- 322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 14, 2007

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 2007.

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 Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2006. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

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 17.2%. For the last five years, the System has experienced an annualized rate of return of 14.0%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

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

Letter of Transmittal (Continued)

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 No. 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2006. The actuarial value of the assets and actuarial accrued liability were $43.0 billion and $49.1 billion, respectively, resulting in a funded ratio of 87.5% at September 30, 2006. 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

In fiscal year 2007 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* A GASB 43 compliant actuarial valuation was completed as of September 30, 2006, to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability would be $25.4 billion. Statement No. 43 does not require retroactive application of the reporting changes. Therefore, in this year of transition, only one valuation year is presented and is included in the required supplementary information of this report.

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is a customer focused organization that serves its members and employees today and prepares them for tomorrow. Progress in fiscal year 2007 has allowed us to do so better than ever before – we are providing better and faster service to customers, we reengineered our processes, and have nearly completed our “Vision ORS” technology project. Below are some of the highlights.

Focus on Our Customer

Webinars **-** We began using webinar technology to provide information to employers and members. The sessions are recorded so they can be viewed again at any time. The pilot project—How to Complete a Final Salary Affidavit for employers—met with such an overwhelmingly positive response (100 percent indicated an increased understanding; 98 percent liked the webinar format), we immediately moved forward with webinars for employers and plan to expand our offerings for both member and employer audiences.

Webinars require 2/3 less staff time to produce compared to face-to-face seminars, and they eliminate travel costs and the associated safety risks. Our customers, both members and employers, are also able to benefit from the elimination of travel costs and inconvenience since they are able to participate in the webinars from their own home or office.

Pension payroll system **-** We deployed a new system that permits daily payroll runs; customers no longer have to wait for a monthly run to receive a refund, adjustment, or first pension payment. It also relieves bottlenecks in workload processing caused by trying to meet monthly deadlines.

Customer self-service **-** This project will allow active members and retirees to access account information and perform transactions via a secure website. In order to get to this point, subject matter experts gathered requirements to create bid documents for vendors. The planning sessions dove deep into the inner workings of our retirement administration system to finalize exactly what we wanted our members to do online and how they would go about doing it.

Preretirement meetings **-** We offered 108 meetings to those nearing retirement eligibility, with 7,094 in attendance. 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.

Customer contact **-** Most of our customers still view the telephone as their primary means of communicating; this year our representatives answered 225,611 calls. A growing number of customers have found email correspondence better meets their busy lifestyles as demonstrated by the 19,099 pieces of correspondence we responded to this year. Our staff also provided face-to-face interaction with 8,206 individuals who visited our office.

Payroll Advisory Team **-** ORS convened a Payroll Advisory Team that meets quarterly to address needs and priorities of our public school employers. The team of 16 is made up of reporting unit payroll staff, software vendors, Michigan School

Letter of Transmittal (Continued)

Business Officials, and ORS staff. Already we have seen benefits. As a result of the team's suggestions we have expanded online system availability to employers and improved our tax deferred payment agreement process.

Employer resources consolidated - ORS completely overhauled reference materials school personnel need to report employee information. All the employer publications were consolidated into a single comprehensive, user-friendly *Reporting Instruction Manual (RIM)* that can be accessed online from the redesigned 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.

Continuously Improve Processes

Reengineering - To ensure we are making the most of our new technology tools, we reengineered 77 processes within the organization. This effort identified efficiencies, and found many ways to improve the speed and quality of services to our customers. We have expanded this reengineering to other administrations within the State's Department of Management and Budget.

Medicare Advantage - Working with Blue Cross Blue Shield of Michigan (BCBSM), ORS combined its supplemental hospital, medical, and drug coverage with Medicare Parts A and B into a Medicare Advantage plan for its public school retirees. Medicare pays the retirement system a set amount each month to cover the cost of each member's claims and administrative services. Savings result from the system providing high quality care and services at a cost that is less than the amount Medicare pays. Estimated savings for fiscal year 2007 are $45 million.

Administrative efficiencies benefit both the system and the customer. Combining BCBSM and Medicare coverage into Medicare Advantage eliminates redundant administrative services between the two carriers, and members only need one ID card, one benefits handbook, one explanation of benefits statement per service, and one customer service center to contact. The plan also has the potential to improve the quality of care, leading to better health outcomes and cost savings.

File imaging - ORS is reaching "paperless" status: nearly all of our old paper files have now been scanned into electronic images. In 2007, we imaged 63,643 member files, 551,808 paper documents, and 254,630 microfiche documents so that staff can quickly access the files with a few clicks of a mouse rather than waiting for a paper file to be delivered. By dismantling and eliminating the need for our paper files prior to the office renovation we will save $7,040 in fiscal year 2007.

Promote a Positive Work Environment

Strategic planning - ORS engaged an all-inclusive approach to strategic planning. The entire staff participated in a group session to identify business issues of importance. Volunteer work groups also worked together to craft the seven strategic goals that will direct ORS for the next three-five years.

All-Staff meetings - ORS hosted two meetings to honor the hard work and dedication of its staff and to deliver direct, relevant business news. The first meeting included our annual presentation of the ORS Excellence Awards to celebrate staff nominated for awards in the categories of Customer Service, Every Day Hero, Innovator, Leadership, and Living the Values. The second meeting focused heavily on upcoming technology and customer service tools that will allow staff to do their jobs with greater ease.

Optimize Technology

Forms, letters, and bar-coding project - When a customer requests a form, the system will pre-populate certain form fields so the customer only needs to provide the information not already contained in our system. Adding barcodes to the forms streamlines the process. The project also includes a process that electronically collects all correspondence and forms requests each day, and uses a secure website to send documents to the State's central printing and mail facility, increasing the efficiency and security of our print and mail process.

In fiscal year 2007 we reviewed, updated, and tested 160 forms, creating greater efficiencies and offering better customer service. We are nearing final implementation stages.

Letter of Transmittal (Continued)

Server replacement - A major project to replace existing servers with new hardware and upgrade some of the middleware software versions is complete. This upgrade was accomplished with support from several different areas in the business and provides enhanced functionality and additional performance improvements.

Of special significance is the introduction of a separate set of servers that mirror our production servers and will serve as our disaster recovery site. The separate servers are located in a different building from our production servers and will be used for technical testing. The servers will always be ready to take over if there should be an emergency.

Workforce management software - Software implemented in our customer service center uses historical activity data to forecast future customer demands. Monitoring the workload volumes for a variety of time intervals assists with scheduling staff for phone and non-phone activities to provide better customer service.

Invest in Employee Development

Customer Service Center training - Staff created and executed contact center training for new employees. Trainees attended formal classroom sessions and were tested on the information presented. Topics included an overview of the retirement systems, software programs, and telephone etiquette. Subject matter experts shared valuable knowledge on insurance, service credit, eligibility, and preretirement topics. Trainees also observed contact center staff during customer calls.

Workforce development staff - The development staff created a series of six training videos to help staff stay on top of new software and program features and techniques. The training videos utilized software that allowed us to connect with our audience by creating interactive video tutorials that were posted online and offered free of charge to all staff in DMB.

Competency Based Training reviews - Senior leadership met individually with every employee and their direct supervisor to ensure each employee is given the opportunity to do what they do best on a daily basis. In addition employees are able to share their personal progress and challenges from the past year, and speak out about any suggestions they have for ways our organization could best utilize their skills.

AWARDS AND ACKNOWLEDGEMENTS

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2006 *Comprehensive Annual Financial Report*. Awarded by the Government Finance Officers Association of the United States and Canada.
- Public Pension Standards 2007 Award for meeting standards for public retirement system management and administration. Awarded by the Public Pension Coordinating Council.
- Blue Pencil-Gold Screen Award for two online video tutorials produced in-house on the topics of earning and purchasing service credit. Awarded by the National Association of Government Communicators in the Shoestring Budget category.
- 2007 Outstanding Program Award for our reorganization and reengineering efforts as we transitioned to become a process-based organization. Awarded by the National Association of State Chief Administrators.
- Innovator Award for our introduction of a phone appointment process that provides high-quality counseling services with less travel time and cost. Awarded by the State of Michigan Department of Management and Budget.

Letter of Transmittal (Continued)

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, Director
Office of Retirement Services

Administrative Organization

Retirement Board Members*

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2008

Vacant
Active Superintendent
Term Expires March 30, 2009

Martha Pichla
Active Classroom Teacher
Term Expires March 30, 2009

William Lawson, Jr.
Retired Finance/Operations
Term Expired March 30, 2007; continues to serve

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

Jeffrey Hoffman
General Public - Actuary/Health Insurance
Term Expired March 30, 2006; continues to serve

Lenore Croudy
Community College Trustee
Term Expires March 30, 2008

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

John Olekszyk
Retired Teacher
Term Expires March 30, 2010

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

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

Michael P. Flanagan
Ex-officio 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

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Gabriel Roeder Smith & Co.
Alan Sonnanstine
Southfield, Michigan

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

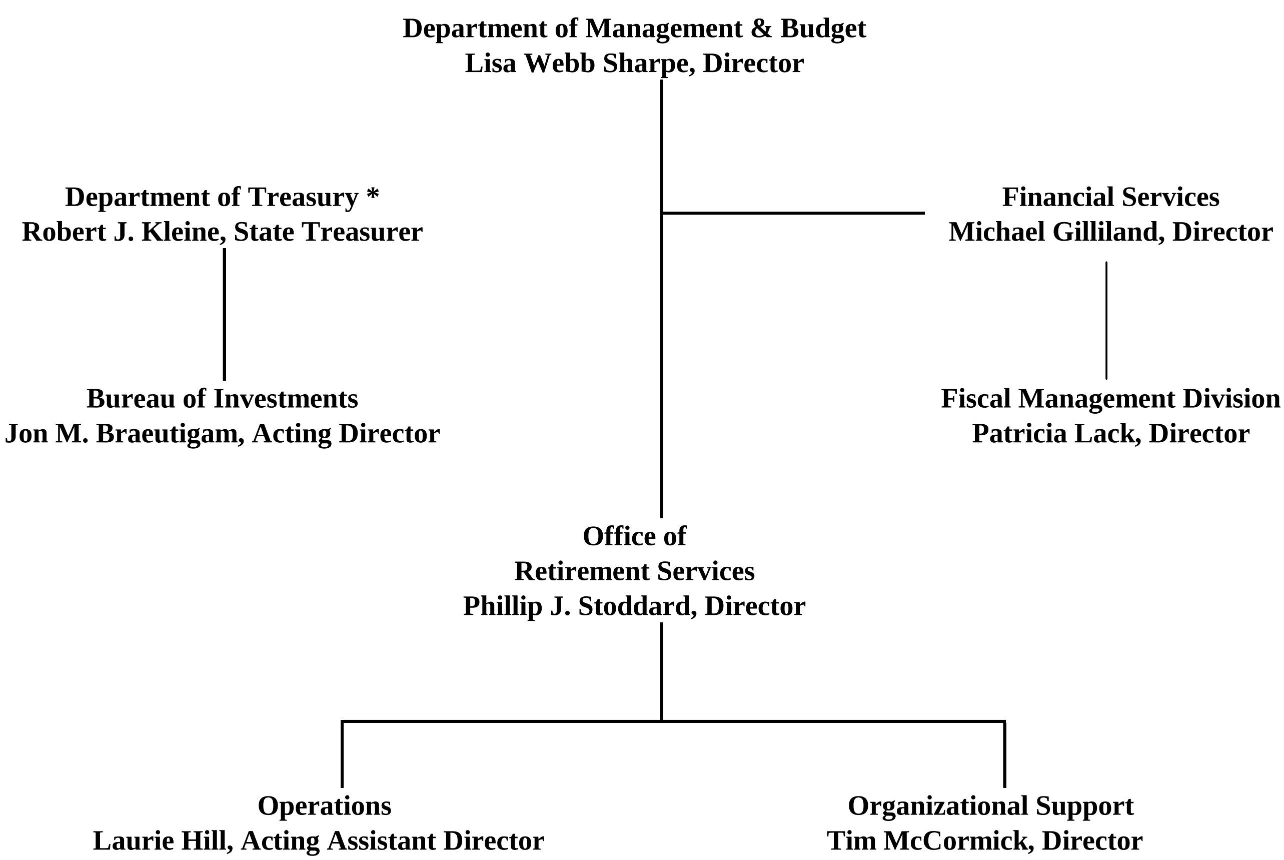
Legal Advisor
Mike Cox
Attorney General
State of Michigan

Medical Advisors
Gabriel Roeder Smith & Co.
Southfield, Michigan

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

Administrative Organization (Continued)

Organization Chart



*** 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

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Notes to Required Supplementary Information
Supporting Schedules

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, 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, 2007 and 2006, 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, 2007 and 2006, 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 14, 2007 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 and Other 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 14, 2007

*F*INANCIAL *S*ECTION

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, 2007. 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 2007 by $49.1 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, 2006, the funded ratio for pension benefits was approximately 87.5% and the funded ratio for other postemployment benefits was approximately 2.5%
- Revenues for the year were $9.2 billion, which is comprised primarily of contributions of $1.9 billion and investment gains of $7.2 billion.
- Expenses increased over the prior year from $3.5 billion to $3.7 billion or 4.4%. 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 Other Postemployment Plan Net Assets* (page 24) and *The Statements of Changes in Pension Plan and Other Postemployment 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 Other Postemployment 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 Other Postemployment 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 Schedules of Funding Progress (page 46) and Schedules of Employer and Other Contributions (page 47) 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, 2007, were $59.8 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased $9.3 billion or 18.5% between fiscal years 2006 and 2007 and increased $8.2 billion or 19.5% between fiscal years 2005 and 2006, both increases primarily due to increased investment earnings and contributions exceeding deductions.

Total liabilities as of September 30, 2007, were $10.6 billion and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities increased $3.8 billion or 56.2% between fiscal years 2006 and 2007 and $4.5 billion or 193.1% between fiscal year 2005 and fiscal year 2006 both primarily due to an increase in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2007 by $49.1 billion. Total net assets held in trust for pension and health benefits increased $5.5 billion or 12.6% 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 2006, when net assets increased by $3.7 billion or 9.4% from the prior year.

Net Assets
(in thousands)

	2007	Increase/ (Decrease)	2006	Increase/ (Decrease)	2005
Assets					
Cash	$ 109,955	34.7 %	$ 81,655	(0.9) %	$ 82,408
Receivables	508,718	(10.6)	569,167	37.3	414,609
Investments	59,142,263	18.8	49,775,568	19.3	41,708,921
Total Assets	59,760,936	18.5	50,426,390	19.5	42,205,938
Liabilities					
Warrants outstanding	8,388	45.0	5,785	(10.7)	6,481
Accounts payable and other accrued liabilities	299,464	259.3	83,339	(8.8)	91,343
Obligations under securities lending	10,313,816	53.7	6,711,645	201.9	2,222,790
Total Liabilities	10,621,668	56.2	6,800,769	193.1	2,320,614
Total Net Assets	$ 49,139,268	12.6 %	$ 43,625,621	9.4 %	$ 39,885,324

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 2007 totaled approximately $9.2 billion.

Total additions for fiscal year 2007 increased approximately $1,926.4 million or 26.6% from those of fiscal year 2006 due primarily to increased investment earnings. Total additions increased approximately $767.7 million or 11.9% from fiscal year 2005 to fiscal year 2006 due primarily to increased investment earnings. Total contributions decreased between fiscal years 2006 and 2007 by $332.3 million or (14.6)%, while investment income increased $2,256.4 million or 45.4%. Total contributions increased from fiscal year 2005 to fiscal year 2006 by $367.9 million or 19.3%, while investment income increased $399.3 million or 8.7% during that timeframe. The Investment Section of this report reviews the results of investment activity for fiscal year 2007.

The increase in member contributions from fiscal year 2005 to 2006 is primarily due to a change in policy regarding Tax Deferred Payment (TDP) agreements whereby those participants wishing to purchase service credit through a TDP agreement could do so without accruing interest if they signed before January of 2005. Consequently, there was a significant increase in employee contributions in fiscal year 2006 as these agreements get paid over time. The decrease in member and employer contributions from fiscal year 2006 to 2007 is primarily the result of fewer active members due to retirements and legislation passed during fiscal year 2007 that allowed a one time revaluation of the system assets and interest only contributions. These changes, enacted due to a projected revenue shortfall for the State in fiscal year 2007, resulted in approximately $297 million in credits to the participating employers.

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 2007 were $3.6 billion, an increase of 4.4% over fiscal year 2006 expenses. Total deductions for fiscal year 2006 were $3.5 billion, which was an increase of 4.2% over fiscal year 2005 expenses.

The health, dental, and vision care expenses during the year decreased by $44.6 million or (7.0)% from $634.8 million to $590.2 million. This compares to a decrease of $71.2 million or (10.1)% from $706.0 million to $634.8 million between fiscal years 2005 and 2006. The payment of pension benefits increased by $183.6 million or 6.6% between fiscal years 2006 and 2007 and by $203.3 million or 7.9% from fiscal year 2005 to fiscal year 2006. In fiscal year 2007, the increase in pension benefit expenses resulted from an increase in retirees (5,636) and an increase in benefit payments to retirees. 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. Administrative expenses increased by $5.9 million or 7.2% between fiscal years 2006 and 2007, primarily due to an increase in personnel services and accounting expenses. 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.

In addition to the factors described above which may be characterized as normal participant population changes, the fairly substantive increase in refunds and transfers is more appropriately tied to economic factors. The 34% increase in transfers and refunds between fiscal years 2006 and 2007 is likely due to Michigan's struggling economy as well as the more "portable" younger members of the system who may be working for a few years and then seeking employment in other states or other professions, taking their vested retirement dollars with them.

Management's Discussion and Analysis (Continued)

Changes in Plan Net Assets
(in millions)

	2007	Increase/ (Decrease)	2006	Increase/ (Decrease)	2005
Additions:					
Member Contributions	$ 434.0	(26.5) %	$ 590.4	37.1 %	$ 430.7
Employer Contributions	1,507.0	(10.5)	1,682.9	14.1	1,474.7
Other Governmental Contributions	- *	-	- *	-	-
Net Investment Income (Loss)	7,225.0	45.4	4,968.6	8.7	4,569.3
Miscellaneous Income	2.8	460.0	0.5	N/A	-
Total Additions	9,168.8	26.6	7,242.4	11.9	6,474.7
Deductions:					
Pension Benefits	2,944.9	6.6	2,761.3	7.9	2,558.0
Health Care Benefits	590.2	(7.0)	634.8	(10.1)	706.0
Refunds and Transfers to Other Systems	32.3	34.0	24.1	7.6	22.4
Administrative Expenses	87.8	7.2	81.9	8.5	75.5
Total Deductions	3,655.2	4.4	3,502.1	4.2	3,361.9
Net Increase	5,513.6	47.4	3,740.3	20.2	3,112.8
Net Assets - Beginning of Year	43,625.6	9.4	39,885.3	8.5	36,772.5
Net Assets - End of Year	$ 49,139.2	12.6 %	$ 43,625.6	9.4 %	$ 39,885.3

* 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 2007 and 2006 that preceded an increase for the prior year. This increase is a result of a moderate national economic upturn that resulted in improved 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 Other Postemployment Plan Net Assets

As of September 30, 2007 and 2006

	September 30, 2007			September 30, 2006		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Assets:						
Equity in common cash	$ 107,566,776	$ 2,388,139	$ 109,954,915	$ 80,357,716	$ 1,296,841	$ 81,654,557
Receivables:						
Amounts due from employer	238,796,864	28,920	238,825,784	266,283,583	21,445	266,305,028
Amounts due from employer long term	266,823,141		266,823,141	301,654,065		301,654,065
Interest and dividends	3,002,393	66,658	3,069,051	1,188,724	19,184	1,207,908
Total receivables	508,622,398	95,578	508,717,976	569,126,372	40,629	569,167,001
Investments:						
Short term investment pools	1,044,227,905	23,183,381	1,067,411,286	1,157,407,064	18,678,636	1,176,085,700
Fixed income pools	7,853,184,370	174,352,135	8,027,536,505	6,938,196,103	111,971,014	7,050,167,117
Domestic equity pools	22,491,305,149	499,339,742	22,990,644,891	20,495,687,889	330,766,515	20,826,454,404
Real estate pool	4,262,390,199	94,631,273	4,357,021,472	3,193,938,710	51,544,890	3,245,483,600
Alternative investment pools	6,696,601,576	148,674,312	6,845,275,888	5,404,045,256	87,212,356	5,491,257,612
International equities pools	5,420,219,819	120,336,777	5,540,556,596	5,190,705,051	83,769,397	5,274,474,448
Cash collateral on loaned securities	10,089,807,870	224,008,435	10,313,816,305	6,605,050,628	106,594,596	6,711,645,224
Total investments	57,857,736,888	1,284,526,055	59,142,262,943	48,985,030,701	790,537,404	49,775,568,105
Total assets	58,473,926,062	1,287,009,772	59,760,935,834	49,634,514,789	791,874,874	50,426,389,663
Liabilities:						
Warrants outstanding	8,205,995	182,184	8,388,179	5,693,574	91,884	5,785,458
Accounts payable and other accrued liabilities	12,979,302	286,484,956	299,464,258	28,428,915	54,909,796	83,338,711
Obligations under securities lending	10,089,807,870	224,008,435	10,313,816,305	6,605,050,628	106,594,596	6,711,645,224
Total liabilities	10,110,993,167	510,675,575	10,621,668,742	6,639,173,117	161,596,276	6,800,769,393
Net Assets Held in Trust for Pension and OPEB Benefits*	$ 48,362,932,895	$ 776,334,197	$ 49,139,267,092	$ 42,995,341,672	$ 630,278,598	$ 43,625,620,270

*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 Other Postemployment Plan Net Assets

For Fiscal Years Ended September 30, 2007 and 2006

	September 30, 2007			September 30, 2006		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
Additions:						
Contributions:						
Member contributions	$ 356,761,212	$ 77,206,778	$ 433,967,990	$ 518,599,720	$ 71,813,553	$ 590,413,273
Employer contributions:						
Colleges, universities and federal	63,505,126	57,764,985	121,270,111	69,385,887	59,030,437	128,416,324
School districts and other	771,861,256	613,915,415	1,385,776,671	926,546,538	627,899,121	1,554,445,659
Other governmental contributions		63,054	63,054		64,574	64,574
Total contributions	1,192,127,594	748,950,232	1,941,077,826	1,514,532,145	758,807,685	2,273,339,830
Investment income (loss):						
Net appreciation (depreciation) in fair value of investments	6,262,637,852		6,262,637,852	4,016,811,356		4,016,811,356
Interest, dividends, and other	961,168,862	50,417,122	1,011,585,984	959,109,354	41,909,987	1,001,019,341
Investment expenses:						
Real estate operating expenses	(1,011,213)		(1,011,213)	(325,681)		(325,681)
Other investment expenses	(67,046,587)		(67,046,587)	(54,782,035)		(54,782,035)
Securities lending activities:						
Securities lending income	470,628,987		470,628,987	156,767,000		156,767,000
Securities lending expenses	(451,816,635)		(451,816,635)	(150,871,583)		(150,871,583)
Net investment income (loss)	7,174,561,266	50,417,122	7,224,978,388	4,926,708,411	41,909,987	4,968,618,398
Transfers from other systems	5,794		5,794	2,647		2,647
Miscellaneous income	2,553,474	260,709	2,814,183	469,085		469,085
Total additions	8,369,248,128	799,628,063	9,168,876,191	6,441,712,288	800,717,672	7,242,429,960
Deductions:						
Benefits and refunds paid to plan members and beneficiaries:						
Retirement benefits	2,944,920,179		2,944,920,179	2,761,292,217		2,761,292,217
Health benefits		521,420,684	521,420,684		565,261,409	565,261,409
Dental/vision benefits		68,805,781	68,805,781		69,550,438	69,550,438
Refunds of member contributions	32,141,952	30,580	32,172,532	23,903,822	42,370	23,946,192
Transfers to other systems	105,572		105,572	123,059		123,059
Administrative expenses	24,489,202	63,315,419	87,804,621	22,501,098	59,459,690	81,960,788
Total deductions	3,001,656,905	653,572,464	3,655,229,369	2,807,820,196	694,313,907	3,502,134,103
Net Increase	5,367,591,223	146,055,599	5,513,646,822	3,633,892,092	106,403,765	3,740,295,857
Net Assets Held in Trust for Pension and OPEB Benefits:						
Beginning of Year	42,995,341,672	630,278,598	43,625,620,270	39,361,449,580	523,874,833	39,885,324,413
End of Year*	$ 48,362,932,895	$ 776,334,197	$ 49,139,267,092	$ 42,995,341,672	$ 630,278,598	$ 43,625,620,270

* 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. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established to provide retirement, survivor and disability benefits to the public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 714 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 Michigan, Central Michigan, Northern Michigan, 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, 2007, and 2006, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	**2007**	**2006***
Regular benefits	143,394	138,306
Survivor benefits	13,941	13,484
Disability benefits	5,509	5,373
Total	162,844	157,163
Current Employees:		
Vested	119,989	119,192
Non-vested	175,995	189,041
Total	295,984	308,233
Inactive employees entitled to benefits and not yet receiving them	14,999	15,679
Total All Members	473,827	481,075

*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	2007	2006*
Eligible participants	162,844	157,163
Participants receiving benefits:		
Health	121,804	118,535
Dental/Vision	129,771	125,752

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

BENEFIT PROVISIONS - PENSION

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.

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.

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which is currently funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing,

Notes to Basic Financial Statements (Continued)

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.

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).

3. To limit future liabilities of Other Postemployment Benefits a graded premium heath insurance subsidy has been put into place for all members of the Michigan Public School Employees Retirement System who first work on or after July 1, 2008.

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:

	2007	2006*
Health, Dental and Vision Plan:		
Eligible Participants	162,844	157,163
Participants receiving benefits:		
Health	121,804	118,535
Dental/Vision	129,771	125,752
Expenses for the year	$653,572,464	$694,313,906
Employer payroll contribution rate	6.55%	6.55%

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

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, 2007, and 2006, the balance in this account was $1.6 billion for both years.

Notes to Basic Financial Statements (Continued)

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, 2007, and 2006, the balance in this account was $3.8 billion and $3.5 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, 2007, and 2006, the balance in this account was ($18.5) billion and ($17.1) billion, respectively.

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, 2007, and 2006, the balance in this account was $29.1 billion and $27.2 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, 2007, and 2006, the balance in this account was $32.4 billion and $27.8 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, 2007, 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 (OPEB) Benefits — This reserve is credited with employee and employer contributions for retirees' health, dental and vision benefits. This reserve includes revenue from the federal government for retiree drug subsidy payments (RDS) pursuant to the provisions of Medicare Part D. Currently, the required contribution is based on pay-as-you-go funding. It represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. 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, 2007, and 2006, the balance in this account was $776.3 million and $630.2 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-

Notes to Basic Financial Statements (Continued)

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.

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 State's 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.

	2007	2006
Building Rentals	$ 793,603	$ 613,290
Technological Support	9,079,681	8,123,257
Attorney General	223,467	215,737
Investment Services	8,559,613	7,913,937
Personnel Services	8,915,499	8,809,695

Notes to Basic Financial Statements (Continued)

Commitment and Contingency – The State has signed a contract with a vendor for technological support through 2007. As of September 30, 2007, the System's portion of this commitment is approximately $1.7 million.

Cash — On September 30, 2007, and 2006, the System had $109.9 million and $81.6 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 $7.0 million and $6.8 million for the years ended September 30, 2007, and 2006, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation. Fiscal year 2006 Medicare Part D revenue in the amount of $64,574 was reclassified from the pension plan to the heath plan.

NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

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 and retiree health benefits. 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. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 29 year period for the 2007 fiscal year and 30 year period for the 2006 fiscal year. For health benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years. Because this is the first year of OPEB reporting, comparative data is not yet available. GASB Statement 43 does not require retroactive presentation.

Actual employer contributions for retirement benefits were $835.4 million and $996.0 million for fiscal years 2007 and 2006, respectively, representing 10.2% of annual covered payroll for the year ended September 30, 2006. The fiscal year 2007 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for pensions:

1. $551.1 million and $581.2 million for fiscal years 2007 and 2006, respectively, for the normal cost of pensions representing 5.6% and 5.7% (before reconciliation) of annual covered payroll for fiscal years 2006 and 2005, respectively.

2. $368.4 million and $580.6 million for fiscal years 2007 and 2006, respectively, for amortization of unfunded actuarial accrued liability representing 3.8% and 5.7% (before reconciliation) of annual covered payroll for fiscal years 2006 and 2005, respectively.

Actual employer contributions for other postemployment benefits (OPEB) were $671.7 million for fiscal year 2007. The fiscal year 2007 annual covered payroll is not yet available. Required employer contributions based on previous year actuarial valuations for OPEB included:

Notes to Basic Financial Statements (Continued)

1. $1,595.5 million for fiscal year 2007 for the normal cost of OPEB representing 16.3% (before reconciliation) of annual covered payroll for fiscal year 2006.

2. $901.6 million for fiscal year 2007 for amortization of unfunded actuarial accrued liability representing 9.2% (before reconciliation) of annual covered payroll for fiscal year 2006.

The System is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits 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, 2007, and 2006, there were 42,658 and 46,423 agreements, respectively. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2007, and 2006. The average length of a contract was approximately 7.8 and 11.8 years for 2007 and 2006. The short term receivable was $77 million and the discounted long term receivable was $267 million at September 30, 2007. At September 30, 2006, the short term receivable was $84 million and the discounted long term receivable was $301 million.

In March of 2007, the Governor signed Executive Order 2007-3 as a means to reduce expenditures due to an anticipated revenue shortfall for fiscal year 2007. In conjunction with this Executive Order, Public Act 15 of 2007 was voted into law by the legislature to allow two, one-time changes in the way the System is funded for fiscal year 2007. The first change revalues System assets according to their actual market value as of September 30, 2006, for the purpose of determining the required amount of employer contributions. Assets are currently valued by a five-year smoothing process, last performed in 1997. The second change allows for an interest only payment on the unfunded actuarially accrued liability (UAAL) for fiscal year 2007, deferring the remaining payments for this fiscal year. Through these two measures, the savings to the School Aid Fund (for K-12 and Intermediate School Districts), Community Colleges and Universities totaled approximately $297 million in the form of credits to offset an equal amount of pension obligation payments that those entities would otherwise have to pay.

Funded Status

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2006, the actuarial accrued liability (AAL) for pension benefits was $49.1 billion, and the actuarial value of assets was $43.0 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $6.1 billion and a funded ratio of 87.5%. The covered payroll (annual payroll of active employees covered by the plan) was $9.8 billion, and the ratio of the UAAL to the covered payroll was 62.6%.

For fiscal year 2006, the actuarial accrued liability (AAL) for OPEB benefits was $25.4 billion, and the actuarial value of assets was $630.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $24.8 billion and a funded ratio of 2.48%. The covered payroll (annual payroll of active employees covered by the plan) was $9.8 billion, and the ratio of the UAAL to the covered payroll was 252.5%.

Actuarial Valuations and Assumptions

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about

Notes to Basic Financial Statements (Continued)

future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets for both pension and OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25 for pension contributions and GASB Statement No. 43 for health contributions.

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

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:

Summary of Actuarial Assumptions

Valuation Date	9/30/2006
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	30 years[1]
Asset Valuation Method	5-Year Smoothed Market[2]
Actuarial Assumptions:	
Inflation Rate	3.5%
Investment Rate of Return - Pension	8%
Investment Rate of Return - Health	4%
Projected Salary Increases	3.5 to 15.9%
Cost-of-Living Adjustments	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate	10.0% Year 1 graded to 3.5% Year 12

[1] Based on the provisions of GASB Statement No. 25, when the actuarial accrued liability for a defined benefit pension plan is under funded or over funded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

[2] The actuarial value of assets was written up to the market value as of September 30, 2006. Beginning October 1, 2006, a 5-year smoothed market value will again be developed.

Notes to Basic Financial Statements (Continued)

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.

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, collateralized mortgages, 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 6.6% of market value of total pooled assets on September 30, 2007, and 9.0% of market value of total pooled assets on September 30, 2006. Futures contracts represent the second largest category of derivatives used, and they represented 0.2% of market value of total pooled assets on September 30, 2007, and 0.0% of market value of total pooled assets on September 30, 2006. Option contracts represent the third largest category of derivatives used, and they represented 0.0% of market value of total pooled assets on September 30, 2007, and 0.6% of market value of total pooled assets on September 30, 2006.

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. The Standard and Poor's futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's indices.

To capitalize on shorter-term windows of investment opportunities, the State Treasurer has traded 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, 2007, and 2006, were $2,460.7 million and $2,830.5 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 2007 to September 2010.
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.

Notes to Basic Financial Statements (Continued)

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, 2007, and 2006, international and domestic equity investment programs involving swaps, received realized gains and earned interest income of $978.8 million and $647.7 million, respectively.

The unrealized gain of $761.0 million at September 30, 2007, and $1,064.2 million at September 30, 2006, 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, 2007, and 2006 swap values are as follows:

	Notional Value	Current Value
9/30/2007 (dollars in millions)	$ 2,460.7	$ 3,217.9
9/30/2006 (dollars in millions)	2,830.5	3,892.7

The September 30, 2006 amounts shown above reflect both the total International Equity Pool swap exposure, and the smaller swap exposure to the Standard and Poor's Small Cap Index Pool. Swap contracts in the Standard and Poor's Small Cap Index Pool matured during the year ending September 30, 2007. Therefore, the September 30, 2007 amounts shown above include only swaps from the International Equity 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, 2007, such account had an average weighted maturity to next reset of 25 days and an average weighted maturity of 710 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, 2007, the System had no credit risk exposure to borrowers. The cash collateral held for securities on loan for the System as of September 30, 2007 was

Notes to Basic Financial Statements (Continued)

$10,313,816,305. The carrying amount, which is the fair market value, of securities on loan for the System as of September 30, 2007 was $10,054,100,679.

Gross income from security lending for the fiscal year was $470,628,987. Expenses associated with this income were the borrower's rebate of $448,233,768 and fees paid to the agent of $3,582,867.

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 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 No. 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, 2007, the System was in compliance with the policy in all material aspects.

Notes to Basic Financial Statements (Continued)

Rated Debt Investments
(in thousands)
As of September 30, 2007 and 2006

Investment Type	2007 Fair Value	2007 S&P	2007 Fair Value	2007 Moody's	2006 Fair Value	2006 S&P	2006 Fair Value	2006 Moody's
Short Term	$ 2,429,843	A-1	$ 2,545,309	P-1	$ 2,295,745	A-1	$ 2,706,155	P-1
	-	A-2	-	P-2	78,948	A-2	110,550	P-2
	259,244	NR	143,778	NR	599,645	NR	157,633	NR
U.S. Agencies-Sponsored								
	2,742,566	AAA	2,742,566	Aaa	2,327,450	AAA	2,327,450	Aaa
	-	NR	-	NR	61,519	NR	61,519	NR
Corporate Bonds & Notes								
	636,618	AAA	588,635	Aaa	469,879	AAA	481,600	Aaa
	732,961	AA	804,985	Aa	660,038	AA	888,940	Aa
	1,299,636	A	1,256,120	A	1,191,377	A	791,096	A
	497,912	BBB	537,344	Baa	287,358	BBB	371,959	Baa
	13,678	BB	13,174	Ba	2,627	BB	-	Ba
	3,250	B	-	B	4,625	B	17,422	B
	-	CCC	1,395	Caa	-	CCC	-	Caa
	139,705	NR	122,107	NR	65,849	NR	130,736	NR
International *								
	257,401	AAA	257,401	Aaa	307,490	AAA	268,569	Aaa
	739,311	AA	1,222,969	Aa	685,056	AA	1,093,659	Aa
	355,166	A	78,130	A	902,855	A	432,069	A
	284,598	NR	77,976	NR	-	NR	101,104	NR
Equity*	-	AA	-	Aa	38,263	AA	262,715	Aa
	-	A	-		224,452	A	-	
Total	$ 10,391,889		$ 10,391,889		$ 10,203,176		$ 10,203,176	

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

NR - not rated

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, 2007. As of September 30, 2007, and 2006, Government securities with a market value of $19.3 million and $19.0 million, 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.

Notes to Basic Financial Statements (Continued)

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, 2007, and 2006, 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, 2007, and 2006, the fair value of the System's prime commercial paper was $2,684.5 million and $2,974.3 million with the weighted average maturity of 12 days and 41 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, 2007 and 2006

	2007 Fair Value	2007 Effective Duration in Years	2006 Fair Value	2006 Effective Duration in Years
Government				
U. S. Treasury	$ 415,558	4.8	$ 450,694	3.1
U. S. Agencies - Backed	1,266,064	5.7	976,139	5.7
U. S. Agencies - Sponsored	2,742,566	3.3	2,388,969	3.7
Corporate	3,323,760	4.9	2,681,753	4.4
International*				
U. S. Treasury	77,611	0.1	77,665	0.5
U. S. Agencies - Sponsored	-		38,732	0.1
Corporate	1,636,476	0.1	1,856,669	0.1
Equities*				
Corporate	-		265,715	0.6
Total	$ 9,462,035		$ 8,736,336	

*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, 2007, and September 30, 2006, the total amount of foreign investment subject to foreign currency risk was $3,969.3 million and $2,489.1 million which amounted to 8.1% and 5.8% 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, 2007

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				$ 46,424	
	Mexico	Peso		$ 80,022			
EUROPE							
	European Union	Euro	$ 632,055	44,542		183,473	$ 161,285
	Switzerland	Franc		53,879		33,830	29,913
	Sweden	Krona				15,055	9,257
	Denmark	Krone		722		10,096	2,636
	Norway	Krone				11,985	1,737
	U.K.	Sterling	25,748	3,524		90,079	67,058
PACIFIC							
	Australia	Dollar				44,667	27,677
	China	Renminbi		9,540			
	Hong Kong	Dollar				16,192	26,082
	India	Rupee		432			
	Japan	Yen	4,333	135,646		108,030	41,093
	Singapore	Dollar				5,731	4,539
	South Korea	Won				16,857	22,984
VARIOUS					$ 392,450	1,609,745	
	Total		$ 662,136	$ 328,307	$ 392,450	$ 2,192,164	$ 394,261

* 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 2007 through September 2010 with an average maturity of 1.2 years.

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)

NOTE 5 — ACCOUNTING CHANGES

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 (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 Statement was adopted in fiscal year 2007 and is reflected in this report.

The GASB has issued Statement No. 50, *Pension Disclosures*, which amends GASB Statements No. 25 and No. 27, and more closely aligns the financial reporting requirements for pensions with those for OPEB. This Statement is effective for periods beginning after June 15, 2007. Early implementation is encouraged. With the implementation of Statement No. 43 in fiscal year 2007, we have chosen to early implement Statement No. 50 as reflected in this report.

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

Schedules 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)
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
2006	39,893	49,136	9,243	81.2	9,806	94.3
2006 [3]	42,995	49,136	6,141	87.5	9,806	62.6

[1] Revised actuarial assumptions
[2] Revised actuarial assumptions and revised asset valuation method
[3] Revised asset valuation method.

Other Postemployment 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)
2006	$ 630	$ 25,387	$ 24,757	2.5%	$ 9,806	252.5 %

Required Supplementary Information (Continued)

Schedules of Employer and Other Contributions

Retirement Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)[1]	Actual Contributions[2]	Percentage Contributed
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	85.72
2007	919,560,821 [3]	835,366,382	90.84

[1] 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.

[2] Differences between the ARC and the actual contributions are the results of a timing difference between when the actuarial valuation is completed and the contributions are made. Contribution rates are adjusted each year through a reconciliation process.

[3] Pursuant to Public Act 15 of 2007, the System's assets were revalued to their actual market value as of September 30, 2006. The five-year smoothing will begin again in fiscal year 2008.

Other Postemployment Benefits

Fiscal Year Ended Sept. 30	Annual Required Contribution (ARC)	Actual Contributions	Other Governmental Contributions	Percentage Contributed
2007	$ 2,497,157,802	$ 671,680,400	$ 63,054	26.90 %

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 and other postemployment benefits as they become due. Because this is the first year the System is reporting other postemployment benefits in accordance with GASB Statement No. 43, only one year of historical trend information is provided. In this transition year and until three actuarial valuations have been performed in accordance with the parameters, the required schedules of funding progress and employer contributions will include information for as many valuations as are available.

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

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

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Personnel Services:		
Staff Salaries	$ 6,078,833	$ 6,029,778
Retirement and Social Security	1,541,969	1,651,209
Other Fringe Benefits	1,294,697	1,128,708
Total	8,915,499	8,809,695
Professional Services:		
Accounting	1,537,394	1,268,334
Actuarial	245,500	174,869
Attorney General	223,467	215,737
Audit	51,700	48,501
Consulting	79,021	39,590
Medical	384,215	393,927
Total	2,521,297	2,140,958
Building and Equipment:		
Building Rentals	793,603	613,290
Equipment Purchase, Maintenance, and Rentals	57,804	53,144
Total	851,407	666,434
Miscellaneous:		
Travel and Board Meetings	24,130	39,372
Office Supplies	57,619	70,238
Postage, Telephone, and Other	2,783,564	2,323,112
Printing	256,005	328,032
Technological Support	9,079,681	8,123,257
Total	12,200,999	10,884,011
Total Administrative Expenses	$ 24,489,202	$ 22,501,098

Comparative Summary Schedule of Health Plan Administrative Expenses For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Health Fees	$ 57,906,980	$ 54,335,949
Dental Fees	5,408,439	4,953,290
Vision Fees	-	170,451
Total Administrative Expenses	$ 63,315,419	$ 59,459,690

Supporting Schedules (Continued)

Schedule of Investment Expenses
For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Real Estate Operating Expenses	$ 1,011,213	$ 325,681
Securities Lending Expenses	451,816,635	150,871,583
Other Investment Expenses*:		
ORS-Investment Expenses	8,559,613	7,913,937
Custody Fees	1,043,686	909,195
Management Fees-Real Estate	3,398,427	2,056,735
Management Fees-Alternative	51,248,340	43,139,209
Management Fees-International	1,884,423	-
Research Fees	912,099	762,959
Total Investment Expenses	$ 519,874,436	$ 205,979,299

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

Schedule of Payments to Consultants
For Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Accounting	$ 1,537,394	$ 1,268,334
Independent Auditors	51,700	48,501
Medical Advisor	384,215	393,927
Actuary	245,500	174,869
Consulting	79,021	39,590
Attorney General	223,467	215,737
Total Payments	$ 2,521,297	$ 2,140,958

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Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)
For the Year Ended September 30, 2007

	Employee Contributions	Member Investment Plan	Employer Contributions
Additions:			
Contributions:			
Member contributions	$ 50,117,301	$ 306,643,911	
Employer contributions:			
Colleges, universities and federal			$ 63,505,126
School districts and other			771,861,256
Other governmental contributions			
Total contributions	50,117,301	306,643,911	835,366,382
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments			
Interest, dividends, and other			
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	5,794		
Miscellaneous income			22,989
Total additions	50,123,095	306,643,911	835,389,371
Deductions:			
Benefits and refunds paid to plan members and beneficiaries:			
Retirement benefits			
Health benefits			
Dental/vision benefits			
Refund of member contributions	3,802,635	27,744,845	580,684
Transfers to other systems	65,587	39,985	
Administrative expenses			
Total deductions	3,868,222	27,784,830	580,684
Net Increase (Decrease) before other changes	46,254,873	278,859,081	834,808,687
Other Changes in Net Assets:			
Interest allocation	52,543,707	257,744,140	
Transfers upon retirement	(102,849,659)	(224,896,110)	
Transfer - stabilization account			
Transfers of employer shares			(2,292,319,836)
Total other changes in net assets	(50,305,952)	32,848,030	(2,292,319,836)
Net Increase (Decrease)	(4,051,079)	311,707,111	(1,457,511,149)
Net Assets Held in Trust for Pension and OPEB Benefits:			
Beginning of Year	1,583,873,582	3,506,035,283	(17,065,061,088)
End of Year	$ 1,579,822,503	$ 3,817,742,394	$ (18,522,572,237)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
		$ 77,206,778	$ 433,967,990
		57,764,985	121,270,111
		613,915,415	1,385,776,671
		63,054	63,054
-	-	748,950,232	1,941,077,826
	$ 6,262,637,852		6,262,637,852
	961,168,862	50,417,122	1,011,585,984
	(1,011,213)		(1,011,213)
	(67,046,587)		(67,046,587)
	470,628,987		470,628,987
	(451,816,635)		(451,816,635)
-	7,174,561,266	50,417,122	7,224,978,388
			5,794
$ 2,459,768	70,717	260,709	2,814,183
2,459,768	7,174,631,983	799,628,063	9,168,876,191
2,944,920,179			2,944,920,179
		521,420,684	521,420,684
		68,805,781	68,805,781
13,788		30,580	32,172,532
			105,572
	24,489,202	63,315,419	87,804,621
2,944,933,967	24,489,202	653,572,464	3,655,229,369
(2,942,474,199)	7,150,142,781	146,055,599	5,513,646,822
2,177,017,260	(2,487,305,107)		-
327,745,769			-
			-
2,292,319,836			-
4,797,082,865	(2,487,305,107)	-	-
1,854,608,666	4,662,837,674	146,055,599	5,513,646,822
27,212,715,744	27,757,778,151	630,278,598	43,625,620,270
$ 29,067,324,410	$ 32,420,615,825	$ 776,334,197	$ 49,139,267,092

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Other Postemployment 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			
Total contributions	225,497,865	293,101,855	995,932,425
Investment income (loss):			
Net appreciation (depreciation) in fair value of investments			
Interest, dividends, and other			
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	995,932,425
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) before other changes	222,799,568	272,257,093	995,458,078
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)	178,784,744	73,563,760	(7,657,479,929)
Net Assets Held in Trust for Pension and OPEB 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	$ (17,065,061,088)

Supporting Schedules (Continued)

Retired Benefit Payments	Undistributed Investment Income	OPEB Benefits	Total
		$ 71,813,553	$ 590,413,273
		59,030,437	128,416,324
		627,899,121	1,554,445,659
		64,574	64,574
-	-	758,807,685	2,273,339,830
	$ 4,016,811,356		4,016,811,356
	959,109,354	41,909,987	1,001,019,341
	(325,681)		(325,681)
	(54,782,035)		(54,782,035)
	156,767,000		156,767,000
	(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	800,717,672	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	106,403,765	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	106,403,765	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	$ 630,278,598	$ 43,625,620,270

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INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments
Jon M. Braeutigam, Acting 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. As of September 30, 2007, members of the Committee were as follows: David G. Sowerby, CFA (public member), Robert E. Swaney, CFA (public member), James B. Jacobs (public member), Keith W. Cooley (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, private equity 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, in a fiduciary capacity.

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 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 three-year asset allocation model. The System currently has seven different asset classes it invests in, which provides for a well-diversified portfolio.

Asset Allocation
(Excludes Collateral on Loaned Securities)

Investment Category	As of 9/30/07 Actual %		Three-Year Target %
Domestic Equity - Active	29.2%		24.0%
Large Cap Core Pool		15.6%	
Large Cap Value Pool		5.0%	
Large Cap Growth Pool		5.4%	
Mid Cap Pool		2.2%	
Small Cap Pool		1.0%	
Domestic Equity - Passive	17.8%		16.0%
S&P 500 Index Pool		16.1%	
S&P MidCap Index Pool		1.7%	
International Equity	11.3%		12.0%
International Equity Pool - Passive		8.4%	
International Equity Pool - Active		2.9%	
Alternative Investments Pool	14.0%		14.0%
Real Estate Pool	8.9%		10.0%
Fixed Income	16.4%		22.0%
Government Bond Pool		7.9%	
Corporate Bond Pool		5.5%	
Fixed Income Bond Pools		2.5%	
Treasury Inflation Prot. Sec. Pool		0.5%	
Short Term Investment Pool	2.4%		1.0%
Commodities	0.0%		1.0%
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, 2007, the total System's rate of return was 17.2% as compiled by State Street Analytics. Annualized rates of return for the three-year period ending September 30, 2007, were 14.3%; for the five-year period were 14.0%; and for the ten-year period were 8.2%.

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. International stocks turned in the best performance, led by emerging markets and the benefit of a declining dollar. Domestic equities were also strong, with mid cap stocks (S&P 400) turning in the best performance for the period, followed by larger companies (S&P 500) then small cap (S&P 600). Credit markets experienced turmoil in July and August due to problems associated with subprime mortgages and concerns with housing. However, a 50 basis point cut in the federal funds rate in mid September provided some stability to the credit markets as well as a positive lift to the equity markets. The Alternative Investments Division continued to benefit from an extraordinarily liquid credit environment that fueled strong mergers and acquisitions, for most of the year, and refinancing activity for its buyout sector. Robust commercial real estate markets allowed the Real Estate pool to experience strong gains from both sales and appraisals of property. Investment grade bonds generally had positive returns for the year. The yield curve shifted from being inverted to being positively sloped as ten to thirty year rates remained relatively unchanged while short-term to ten year rates declined.

For the fiscal year, the Dow Jones Industrial Average provided a total return of 21.7%, while the broader based S&P 500 returned 16.4%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 5.08%.

The U.S. economy grew at an estimated rate of 2.6% in fiscal year 2007 as measured by real gross domestic product. The first half was weak due to a significant rise in imports and a decline in inventories. The second half of the fiscal year picked up due to a narrowing of the trade deficit, a pick up in defense spending and a surge in commercial construction. Corporate earnings remained strong for most of the year, led by robust profits from energy companies and a rebound in technology, but earnings growth slowed for some sectors, namely housing and financials, late in the year. Strong demand sent commodity and energy prices climbing during most of the year, with oil moving close to $80 per barrel in September.

For the first time since June of 2003, Federal Reserve Chairman Ben Bernanke and the Federal Reserve decided unanimously to cut the federal funds rate from 5.25% to 4.75%. They expressed a general concern that tightening credit conditions and disruptions in the financial markets might have the potential to intensify the housing correction and possibly restrain future economic growth.

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

Large Cap Core Pool

The objective of the pool of large company core stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P 500 Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than $5 billion that have passed several screens based on the stocks' valuation, risk attributes and tracking error relative to the overall index. The goal is to build a portfolio of stocks that will provide excess returns relative to the S&P 500 while providing minimal tracking error to the index. At times a portion of the pool may be invested in exchange traded funds (ETFs) and 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 consideration of the weightings of the S&P 500 Index.

The following summarizes the weightings of the pool as of September 30, 2007:

Financials	20.5 %
Technology	17.2
Healthcare	12.9
Consumer Discretionary	11.5
Industrials	10.3
Consumer Staples	9.3
Energy	8.7
Utilities	3.2
Telecom	3.0
Materials	2.5
Short Term Investments	0.9
Total	**100.0 %**

The System's Large Cap Core pool was established in July of 2007, and therefore does not have performance for the entire 2007 fiscal year.

At the close of fiscal year 2007, the Large Cap Core pool represented 15.6% of total investments. The following summarizes the System's 78.1% ownership share of the Large Cap Core pool at September 30, 2007:

Large Cap Core Pool
(in thousands)

Short Term Pooled Investments	$ 21,609
Equities	7,599,000
Settlement Principal Payable	(13,932)
Accrued dividends	9,352
Total	**$ 7,616,029**

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 several valuation criteria, including price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with

Report on Investment Activity (Continued)

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 among ten sectors with some consideration to the weightings of the S&P Citigroup Value Index.

The following summarizes the weightings of the pool as of September 30, 2007:

Financials	33.0 %
Healthcare	17.8
Consumer Discretionary	9.5
Energy	9.3
Technology	8.1
Short Term Investments	6.6
Consumer Staples	5.9
Industrials	3.7
Telecom	3.2
Materials	2.2
Utitilies	0.7
Total	**100.0 %**

The System's Large Cap Value pool achieved a total rate of return of 13.7% for fiscal year 2007. This compared with 16.1% for the S&P Citigroup Value Index.

At the close of fiscal year 2007, the Large Cap Value pool represented 5.0% of total investments. This compares to 13.2% for fiscal year 2006. The following summarizes the System's 78.4% ownership share of the Large Cap Value pool at September 30, 2007:

Large Cap Value Pool
(in thousands)

Short Term Pooled Investments	$ 95,594
Equities	2,365,919
Accrued dividends	1,840
Total	**$ 2,463,353**

Report on Investment Activity (Continued)

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 $3 billion and which offer above-average and sustainable growth in revenues, earnings, and cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. 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.

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, 2007:

Technology	22.9 %
Healthcare	17.2
Energy	14.7
Consumer Staples	13.0
Industrials	11.1
Financials	8.7
Consumer Discretionary	8.3
Short Term Investments	3.4
Utitilies	0.4
Materials	0.3
Total	**100.0 %**

The Large Cap Growth pool's total rate of return was 19.8% for fiscal year 2007 versus 16.8% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2007, the Large Cap Growth pool represented 5.4% of total investments. This compares to 13.1% for fiscal year 2006. The following summarizes the System's 78.0% ownership share of the Large Cap Growth pool at September 30, 2007:

Large Cap Growth Pool
(in thousands)

Short Term Pooled Investments	$	36,053
Equities		2,621,835
Accrued dividends		976
Total	**$**	**2,658,864**

Report on Investment Activity (Continued)

Mid Cap Pool

Nine Mid Cap managers were selected in 2005 and they were funded out of the Large Cap Value and Growth pools. The manager's investment styles range from value, growth and core and they select stocks with average market capitalizations greater than $1 billion but less than $5 billion. The investment objective of the Mid Cap manager pool is to generate a combined rate of return from investment in common stocks and equivalents that exceeds the S&P 400 MidCap Index.

The Mid Cap pool return for fiscal year 2007 was 22.5% versus the benchmark's 18.8%.

At the close of fiscal year 2007, the Mid Cap pool represented 2.2% of total investments. This compares to 2.1% for fiscal year 2006. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2007:

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	$ 175,233	$ 172,878	$ 110,384	$ 154,479
Ownership Percentage	77.4%	77.2%	77.4%	77.4%

Mid Cap Growth Pool
(in thousands)

	Alliance MidCap Growth	Putnam MidCap Growth	Rainer MidCap Growth	UBS MidCap Growth	Wellington Management MidCap Growth
Total Investment	$ 116,429	$ 44,883	$ 110,647	$ 99,761	$ 102,464
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 by selecting stocks with market capitalizations greater than $60 million but less than $3 billion.

Report on Investment Activity (Continued)

In December of 2006, five new small cap managers were hired in the Small Cap pool, and in January of 2007, three managers were terminated for performance reasons. The current System's Small Cap pool is invested with one Growth, one Core, and five Value managers.

The Small Cap pool return for fiscal year 2007 was 17.9% versus the benchmark's 14.9%.

At the close of fiscal year 2007, the Small Cap pool represented 1.0% of total investments. This compares to 0.9% for fiscal year 2006. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2007:

Small Cap Value Pool
(in thousands)

	Donald Smith SmallCap Value	Fisher SmallCap Value	GW Capital Small Cap Value	Northpointe SmallCap Value	Opus Capital SmallCap Value
Total Investment	$ 74,149	$ 101,693	$ 59,576	$ 65,724	$ 20,017
Ownership Percentage	76.5%	79.5%	76.5%	77.1%	76.5%

Small Cap Growth and Core Pool
(in thousands)

	Champlain SmallCap Core	Pier Capital SmallCap Growth
Total Investment	$ 64,738	$ 86,591
Ownership Percentage	76.5%	76.5%

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, 2007:

Report on Investment Activity (Continued)

Financials	19.8	%
Information Technology	16.2	
Healthcare	11.7	
Energy	11.7	
Industrials	11.5	
Consumer Staples	9.5	
Consumer Discretionary	9.2	
Telecomm. Services	3.7	
Utilities	3.5	
Materials	3.2	
Total	**100.0**	**%**

The S&P 500 Index pool return for the fiscal year was 16.5% versus the benchmark's 16.4%.

At the close of fiscal year 2007, the S&P 500 Index pool represented 16.1% of total investments. This compares to 16.4% for fiscal year 2006. The following summarizes the System's 78.0% ownership share of the S&P 500 Index pool at September 30, 2007:

S&P 500 Index Pool
(in thousands)

Short Term Pooled Investments	$	106,102
Equities		7,755,910
Futures Contracts		177
Accrued dividends		8,861
Total	**$**	**7,871,050**

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 18.7% versus the benchmark’s 18.8%.

At the close of fiscal year 2007, the S&P MidCap Index pool represented 1.7% of total investments. This compares to 1.9% for fiscal year 2006. The schedule on the following page summarizes the System’s 78.0% ownership share of the S&P MidCap Index pool at September 30, 2007:

Report on Investment Activity (Continued)

S&P MidCap Index Pool
(in thousands)

Short Term Pooled Investments	$	11,590
Equities		813,404
Futures Contracts		(27)
Settlement Principal Payable		(3,806)
Accrued dividends		543
Total	**$**	**821,704**

International Equity 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 20.7% compared to the Citigroup BMI-EPAC return of 19.8%.

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 $3,217.9 million on September 30, 2007. That valuation included a net unrealized gain of $761.0 million. 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 2007, the pool received realized gains of $896.9 million on swap equity exposures and dedicated short-term investments. During the same period, $67.3 million of interest income was earned from international equity swaps.

At the close of fiscal year 2007, the International Equity – Passive pool represented 8.4% of total investments. This compares to 10.4% for fiscal year 2006. The following schedule on the next page summarizes the System's 78.0% ownership share of the International Equity Pool - Passive at September 30, 2007:

Report on Investment Activity (Continued)

International Equity Pool - Passive
(in thousands)

Short Term Pooled Investments	$	821,022
Equities		838,997
Fixed Income Securities		1,714,087
Market Value of Equity Contracts		751,228
Accrued dividends and interest		12,127
Total	**$**	**4,137,461**

International Equity 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. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund and the State Street Global Asset International Alpha Select Pool. Two international managers, SSgA Int'l Small Cap Alpha and GlobeFlex Int'l Small Cap, were selected and funded during April 2007, and added to the three managers already in the pool.

The International Equity Pool – Active return for the fiscal year was 26.5% versus the benchmark's 26.0%.

At the close of fiscal year 2007, the International Equity - Active pool represented 2.9% of total investments. This compares to 1.8% for fiscal year 2006. The following summarizes the System's ownership share and composition of the pool at September 30, 2007:

International Equities Pools - Active
(in thousands)

	Alliance Bernstein International	Wellington International	SSGA International	Globeflex International SmallCap	SSGA International SmallCap
Total Investment	$ 445,328	$ 369,874	$ 431,824	$ 76,040	$ 80,030
Ownership Percentage	77.6%	77.4%	77.4%	77.9%	77.9%

Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the benchmark for all private equity investments over long time periods. The benchmark is a blend of the S&P 500 Index plus 300 basis points and the 10 Year Yield plus 300 basis points using ending weights of equity and fixed income holdings within the portfolio.

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following schedule on the next page summarizes the weightings of the pool as of September 30, 2007:

Report on Investment Activity (Continued)

Buyout Funds	52.3 %
Special Situation Funds	16.8
Venture Capital Funds	10.9
Liquidation Portfolio	7.0
Funds of Funds	6.4
Hedge Funds	2.5
Short Term Investments	2.3
Mezzanine Funds	1.8
Total	**100.0 %**

The Alternative Investments pool had a return of 30.7% for the fiscal year ended September 30, 2007, versus the benchmark of 19.2%.

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2007, was 4.8%.

At the close of fiscal year 2007, the Alternative Investments pool represented 14.0% of total investments and T. Rowe Price represented 0.04% of total investments. This compares to 12.7% for Alternative and 0.01% for Credit Suisse Asset Management for fiscal year 2006. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2007:

Alternative Investments Pool
(in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	$ 159,324	$ 11,242
Equities	6,665,219	6,669
Settlement Proceeds Receivable	-	2,822
Total	**$ 6,824,543**	**$ 20,733**
Ownership Percentage	79.1%	80.9%

Real Estate Pool

The Real Estate pool seeks favorable returns primarily 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.

Report on Investment Activity (Continued)

The Real Estate pool diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. The pool may also make foreign real estate investments, which are not expected to exceed 15% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	22.8 %
Commercial office buildings	22.3
Hotels	19.4
Retail shopping centers	14.4
Industrial warehouse buildings	7.5
Short Term Investments	5.7
Senior Living	3.3
Land	2.3
For Sale Housing	2.3
Total	**100.0 %**

The Real Estate pool generated a return of 20.5% for fiscal year 2007, while the benchmark return was 16.0%. The benchmark is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. During the year the pool benefited from continued strong flow of capital into the commercial real estate market from both domestic and foreign investors coupled with improvement in commercial real estate fundamentals, which resulted in the pool realizing strong appreciation and gains on asset sales.

At the close of fiscal year 2007, the Real Estate pool represented 8.9% of total investments. This compares to 7.5% for fiscal year 2006. The following summarizes the System’s 76.5% ownership share of the Real Estate pool at September 30, 2007:

Real Estate Pool
(in thousands)

Short Term Pooled Investments	$ 246,628
Equities	4,110,389
Fixed Income Securities	4
Total	**$ 4,357,021**

Government Bond Pool

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

The Government Bond Pool invests in a diversified portfolio of United States’ government bonds including, but not limited to: treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. 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.

Report on Investment Activity (Continued)

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 4.6%, rose to 5.3%, then declined and ended at 4.6%. The yield curve shifted from inverted to positively sloped. Ten to thirty-year rates remained relatively unchanged while short-term to ten-year rates declined.

For the fiscal year ending September 30, 2007, the Government Bond pool returned 5.9% which compared favorably to the 5.6% return of the Lehman Brothers Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2007:

U.S. Agency	62.8	%
GNMA	20.5	
U.S. Guaranteed	11.9	
Short Term Investments/Accruals	4.8	
Total	**100.0**	**%**

At the close of fiscal year 2007, the Government Bond pool represented 7.9% of total investments. This compares to 8.3% for fiscal year 2006. The following summarizes the System's 78.0% ownership share of the Government Bond pool at September 30, 2007:

Government Bond Pool
(in thousands)

Short Term Pooled Investments	$	151,538
Fixed Income Securities		3,695,895
Accrued interest		35,855
Total	**$**	**3,883,288**

Treasury Inflation Protected Securities Pool

A Treasury Inflation Protected Securities (TIPS) Pool was established in January 2007. Transfer of TIPS holdings in the Government Bond Pool provided the initial funding for the TIPS pool.

The TIPS pool return from inception to fiscal year end was 6.3%.

At the close of fiscal year 2007, the Treasury Inflation Protected Securities pool represented 0.5% of total investments. The following schedule on the next page summarizes the System's 75.6% ownership share of the TIPS pool at September 30, 2007:

Report on Investment Activity (Continued)

TIPS Pool
(in thousands)

Short Term Pooled Investments	$	3,257
Fixed Income Securities		212,293
Accrued interest		1,024
Total	**$**	**216,574**

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 Corporate Bond 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 issues may be 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 ratio relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2007, the Corporate Bond pool returned 5.3% compared to the 4.2% return of the Lehman Brothers Credit Index. 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, 2007:

Financials	23.7 %
Healthcare	17.9
Industrials	13.1
Consumer Staples	11.9
Consumer Discretionary	10.3
Other	7.3
Utilities	5.5
Energy	2.7
Materials	2.6
Information Technology	2.6
Short Term Investments/Accurals	2.4
Total	**100.0 %**

At the close of fiscal year 2007, the Corporate Bond pool represented 5.5% of total investments. This compares to 6.2% for fiscal year 2006. The following schedule on the next page summarizes the System's 78.3% ownership share of the Corporate Bond pool at September 30, 2007:

Report on Investment Activity (Continued)

Corporate Bond Pool
(in thousands)

Short Term Pooled Investments	$	31,812
Fixed Income Securities		2,637,449
Accrued interest		32,062
Total	**$**	**2,701,323**

Fixed Income Core Pools

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

Delaware Investments, Dodge & Cox, Dupont Capital Management, Pyramis Global Advisors, and Metropolitan West Asset Management were the firms hired.

The Fixed Income Core pools combined rate of return for the fiscal year was 5.3% versus the benchmark’s 5.1%.

At the close of fiscal year 2007, the Fixed Income Core pools represented 1.4% of total investments. This compares to 0.9% for fiscal year 2006. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2007:

Fixed Income Core Pools
(in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	$ 83,816	$ 143,780	$ 102,178	$ 205,520	$ 144,928
Ownership Percentage	77.5%	77.5%	77.5%	77.5%	77.5%

Fixed Income Corporate Manager Pools

Four fixed income corporate managers were selected and commenced management on September 15, 2006, with an objective of exceeding the return of the Lehman Credit Index net of fees.

The four managers hired were AllianceBernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was 4.7% versus the benchmark’s 4.2%.

At the close of fiscal year 2007, the Fixed Income Corporate Manager pools represented 1.1% of total investments. This compares to 0.9% for fiscal year 2006. The following schedule on the next page summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2007:

Report on Investment Activity (Continued)

Fixed Income Corporate Manager Pools
(in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	$ 121,286	$ 183,529	$ 120,878	$ 120,436
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 5.7% versus the benchmark's 4.9%.

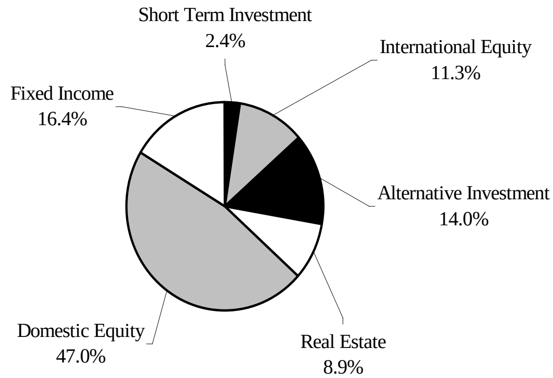
Potential areas of investment are:

- Obligations of the United States or its agencies.
- Bankers' 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, 2007, 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 2007, the Short Term Investment pool represented 2.4% of total investments. This compares to 2.9% for fiscal year 2006. The System's ownership share of the Short Term Investment pool at September 30, 2007 was $1,177,366,201 composed of fixed income securities and equity in common cash.

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2007

Investment Category	Current Year	Annualized Rate of Return[1] 3 Years	5 Years	10 Years
Total Portfolio	17.2 %	14.3 %	14.0 %	8.2 %
Total Domestic Equity	16.6	13.1	15.6	6.6
S&P 1500 Index	16.6	13.4	15.8	7.0
Large Cap Value Pool	13.7	14.1		
Large Cap Growth Pool	19.8	11.7		
Mid Cap Pool	22.5			
Small Cap Pool	17.9	14.3		
S&P 500 Index Pool	16.5	13.2		
S&P MidCap Index Pool	18.7	15.8		
International Equity Pool - Passive	20.7	21.8	21.3	8.4
S&P Citigroup BMI - EPAC 50/50	19.8	22.5	21.6	8.1
International Equity Pool - Active	26.5			
Alternative Investments Pool	30.7	26.2	19.9	13.3
Alternative Blended Benchmark[2]	19.2	16.1	18.6	10.0
T. Rowe Price (Stock Distributions)	4.8			
Real Estate Pool	20.5	17.9	13.5	12.0
NCREIF Property Blended Index[3]	16.0	16.9	13.8	12.2
Total Fixed Income	5.6	4.1	4.3	5.7
Lehman Brothers Government/Credit	5.1	3.7	4.2	6.0
Government Bond Pool	5.9	4.5		
Corporate Bond Pool	5.3	3.7		
Fixed Income Core Pool	5.3			
Fixed Income Managers Pool	4.7			
Short Term Investment Pool	5.7	4.3	3.1	4.2
30 Day Treasury Bill	4.9	3.9	2.8	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 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights. History prior to 1/1/07 is S&P 500 plus 300 bps.
[3]As of 10/1/05, index is NCREIF less 130 bps. History prior to 10/1/05 reflects NCREIF less 75 bps.

Largest Assets Held

Largest Stock Holdings (By Market Value)[1]
September 30, 2007

Rank	Shares	Stocks	Market Value
1	6,048,904	Exxon Mobil Corporation	$ 559,886,548
2	13,129,995	General Electric Corporation	543,581,805
3	3,149,733	SPDR Trust	480,586,237
4	15,954,161	Microsoft Corporation	470,009,575
5	6,675,305	American International Group	451,584,415
6	8,960,829	Citigroup Incorporated	418,201,889
7	6,183,970	Johnson and Johnson	406,286,846
8	5,213,965	Procter and Gamble Corporation	366,750,265
9	3,642,628	Chevron Corporation	340,877,139
10	10,063,253	Cisco Systems Incorporated	333,194,293

Largest Bond Holdings (By Market Value)[1]
September 30, 2007

Rank	Par Amount	Bonds & Notes	Market Value
1	$ 195,107,650	General Electric Cap Corp 5.7275% FRN Due 2-15-2017	$ 190,709,143
2	151,279,620	Treasury Inflation Index Due 7-15-2014	164,861,371
3	157,515,653	Wachovia Corp 5.28125% FRN Due 4-23-2012	156,157,080
4	155,952,540	Bank Nova Scotia 5.37% FRN Due 10-12-2007	155,964,704
5	116,964,405	HSBC Finance Corp 5.46% FRN Due 10-22-2007	116,988,500
6	116,964,405	JP Morgan Chase & Co 5.7375% FRN Due 9-21-2012	116,506,840
7	81,875,084	American Honda Finance 5.25% FRN Due 1-22-2008	81,890,312
8	77,976,270	First Tennessee Bank 5.41% FRN Due 11-7-2008	78,129,571
9	77,976,270	American Honda Finance 5.74313% FRN Due 3-13-2008	78,040,211
10	77,976,270	HBOS PLC 5.70313% FRN Due 3-14-2008	78,008,708

[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 30.4% 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 $8,560 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	$ 34,067,473	$ 8,560	2.5
Outside Advisors for			
Fixed Income	1,226,352	1,488	12.1
Mid Cap Equity	1,087,157	5,458	50.2
Small Cap Equity	472,488	3,269	69.2
International Equity	2,197,639	4,037	18.4
Alternative	6,671,738	51,248	76.8
Real Estate	3,215,554	3,398	10.6
Total	$ 48,938,401	$ 77,458	

Other Investment Services Fees:

Assets in Custody	$ 47,761,035	$ 1,956
Securities on Loan	10,054,101	3,583

[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 100 on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees normally range from 50 to 175 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2007						
	Actual Commissions Paid [1]	Actual Number of Shares Traded [1]	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
Investment Brokerage Firms:							
Banc of America Securities LLC	$ 23,541	784,700	$ 0.03	$ 0.01	$ 0.02	$ 7,847	$ 15,694
Bear Stearns & Co Inc.	574,203	27,914,270	0.02	0.01	0.01	279,143	295,061
Broadcort Capital	97,408	3,246,946	0.03	0.01	0.02	32,469	64,939
Cantor Fitzgerald & Co.	188,043	7,491,980	0.03	0.01	0.02	74,920	113,123
Citigroup Global Markets Inc.	525,649	17,283,886	0.03	0.01	0.02	172,839	352,810
Cowen & Co., LLC	232,619	7,753,978	0.03	0.01	0.02	77,540	155,080
Credit Suisse Securities LLC	501,321	17,286,967	0.03	0.01	0.02	172,870	328,451
Deutsche Bank Securities Inc.	207,206	6,870,624	0.03	0.01	0.02	68,706	138,500
Goldman Sachs & Co.	404,814	13,491,975	0.03	0.01	0.02	134,920	269,894
The Griswold Co., Inc.	149,173	7,458,668	0.02	0.01	0.01	74,587	74,586
Investment Technology Group Inc.	195	16,220	0.01	0.01	-	162	32
ISI Capital LLC	112,450	3,638,435	0.03	0.01	0.02	36,384	76,066
J P Morgan Securities Inc.	233,268	7,735,327	0.03	0.01	0.02	77,353	155,915
Labranche Financial Services Inc. (MARA)	28,124	1,385,995	0.02	0.01	0.01	13,860	14,264
Lehman Brothers Inc.	315,652	10,515,754	0.03	0.01	0.02	105,158	210,494
Liquidnet Inc.	170	8,516	0.02	0.01	0.01	85	85
Merrill Lynch, Pierce, Fenner & Smith, Inc.	764,286	25,067,052	0.03	0.01	0.02	250,671	513,616
Mischler Financial Group, Inc.	24,236	807,862	0.03	0.01	0.02	8,079	16,157
Morgan Stanley Co Inc.	403,495	13,449,861	0.03	0.01	0.02	134,499	268,997
OTA LLC	40,698	1,356,601	0.03	0.01	0.02	13,566	27,132
Prudential Equity Group LLC	157,881	5,262,684	0.03	0.01	0.02	52,627	105,254
Punk, Ziegel & Co.	88,145	2,938,164	0.03	0.01	0.02	29,382	58,763
Sandford C. Bernstein & Co. LLC	346,032	11,534,383	0.03	0.01	0.02	115,344	230,688
Stanford Group Co.	60,950	1,943,925	0.03	0.01	0.02	19,439	41,511
State Street Brokerage Services	1,452,324	127,349,685	0.01	0.01	-	1,273,497	178,827
Thinkequity Partners LLC	3,164	84,905	0.04	0.01	0.03	849	2,315
Thomas Weisel Partners	36,051	949,012	0.04	0.01	0.03	9,490	26,561
UBS Securities LLC	331,982	11,066,061	0.03	0.01	0.02	110,661	221,321
Wachovia Capital Markets, LLC	243	8,110	0.03	0.01	0.02	81	162
Wayne Company	13,937	425,865	0.03	0.01	0.02	4,259	9,679
Weeden & Co.	63,752	6,375,236	0.01	0.01	-	63,752	-
Total	$ 7,381,012	341,503,647	$ 0.03 [2]	$ 0.01	$ 0.02	$ 3,415,039	$ 3,965,977

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

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

Investment Summary

Fiscal Year Ended September 30, 2007

	Market Value [a]	Percent of Market Value	Investment & Interest Income [b]	Percent of Investment & Interest Income
Fixed Income Pools	$ 8,027,536,505	16.4%	$ 411,794,782	5.7%
Domestic Equity Pools	22,990,644,891	47.0%	3,321,673,296	45.7%
Real Estate Pool	4,357,021,472	8.9%	698,138,988	9.6%
Alternative Investment Pools	6,845,275,888	14.0%	1,675,439,461	23.0%
International Equities Pools	5,540,556,596	11.3%	1,096,721,528	15.0%
Short Term Investment Pools	1,177,366,201	2.4%	70,455,781	1.0%
Total	$ 48,938,401,553	100.0%	$ 7,274,223,836	100.0%

[a] Market value excludes $10,313,816,305 in cash collateral for security lending for fiscal year 2007.

[b] Total Investment & Interest Income excludes net security lending income of $18,812,352.

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%	2,027,327,525	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%	$ 5,017,830,697	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 $5,895,417.

ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Schedule of Changes in the Retirement Rolls
Prioritized Solvency Test
Analysis of Financial Experience
Summary of Plan Provisions

ACTUARIAL SECTION

Actuary's Certification

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

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October 8, 2007

Ms. Lisa Webb Sharpe, Director
Department of Management and Budget
and
The Retirement Board
Michigan Public School Employees' Retirement System
P.O. Box 30171
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan Public School Employees' Retirement System (MPSERS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation. The valuation process develops employer contributions that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of September 30, 2006.

The Retirement System provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze long term trends. The plan's external auditor also audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of GASB Statement No. 25. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

Ms. Lisa Webb Sharpe
October 8, 2007
Page 2

Our firm provided the following supporting schedules for use in the Comprehensive Annual Financial Report:

Financial Section

- Note 1 Table of System's Membership
- Schedule of Funding Progress
- Schedule of Employer Contributions (Annual Required Contribution)
- Note B - Summary of Actuarial Assumptions

Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Percent of Eligible Active Members Retiring Within Next Year
- Separation from Active Employment Before Age and Service Retirement and Individual Pay Increase Assumptions
- Schedule of Active Member Valuation Data
- Schedule of Changes in the Retirement Rolls
- Prioritized Solvency Test
- Analysis of System Experience

Statistical Section

- Schedule of Retired Members by Type of Pension Benefit (Retirement Type and Option Selected)
- Schedule of Average Benefit Payments - Pension

The actuarial valuation of MPSERS as of September 30, 2006 was performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,

Cathy Nagy

Cathy Nagy, FSA, MAAA

Alan E. Sonnanstine

Alan Sonnanstine, ASA, MAAA

CN/AES:lr

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in the valuations was 8% per year net of expenses, 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, this investment return rate translates to an assumed long-term 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 and deferred retirement actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, are financed over a declining 40-year period beginning October 1, 1996. Adopted or Re-Adopted 1996.

7. The Department of Management and Budget approved the use of market value of assets as of September 30, 2006, for valuation purposes. For investment gains and losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 2007.

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.

12. Election of two person retiree health coverage is assumed to be between 75 – 100% for males and 60 – 100% for females depending on participant type.

13. A retiring member will have coverage for a surviving beneficiary or spouse (active and inactive members) is assumed to be 80% of male retirees and 67% of female retirees.

14. Twenty-one percent of future pension recipients and twenty-eight percent of current recipients eligible for retiree health benefits will opt-out of the retiree healthcare plan.

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

Retirement Ages	Basic	MIP
46-50		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
1997	295,096	$ 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
2006	308,233	9,806,452	31,815	(1.4)	44.1	9.9

* 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*		
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
2006	9,853	248,852	4,396	65,092	157,163	2,828,460	6.9	17,997

* In thousands of dollars.
** Revised actuarial data.

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)				Portion of AAL Covered by Assets			
	(1)	(2)	(3)					
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)[1]
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
2006	4,082	29,505	15,549	39,893	100	100	40.6	81.2
2006 [2]	4,082	29,505	15,549	42,995	100	100	60.5	87.5

[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 System Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2006
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.	$ 46,169,587
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.	(5,918,000)
3.	**Pay Increases.** If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	691,550,640
4.	**Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.	(204,586,913)
5.	**Death After Retirement**. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(49,164,540)
6.	**New entrants.** New entrants into the System will generally result in an actuarial loss.	(98,700,211)
7.	**Other.** Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	159,999,180
8.	**Composite Gain (or Loss) During Year**	$ 539,349,743

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2006, 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.

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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 Pension Benefit and Refund Deductions by Type
- Schedule of Health 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:

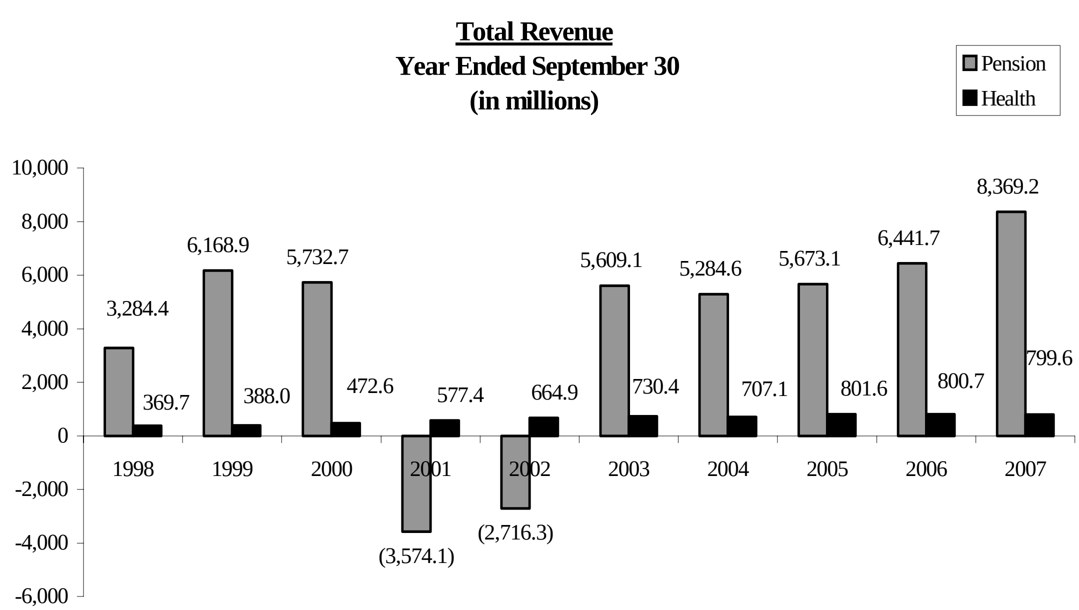
- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Health Benefit
- Schedule of Health Benefits
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - Health
- Schedule of Average Benefit Payments – Dental/Vision
- Schedule 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
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	995,932,425	10.15	4,927,180,143	6,441,712,288
2007	356,761,212	835,366,382	N/A	7,177,120,534	8,369,248,128

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
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	7.00	41,974,561	800,717,672
2007	77,206,778	671,680,400	N/A	50,740,885	799,628,063



Statistical Section

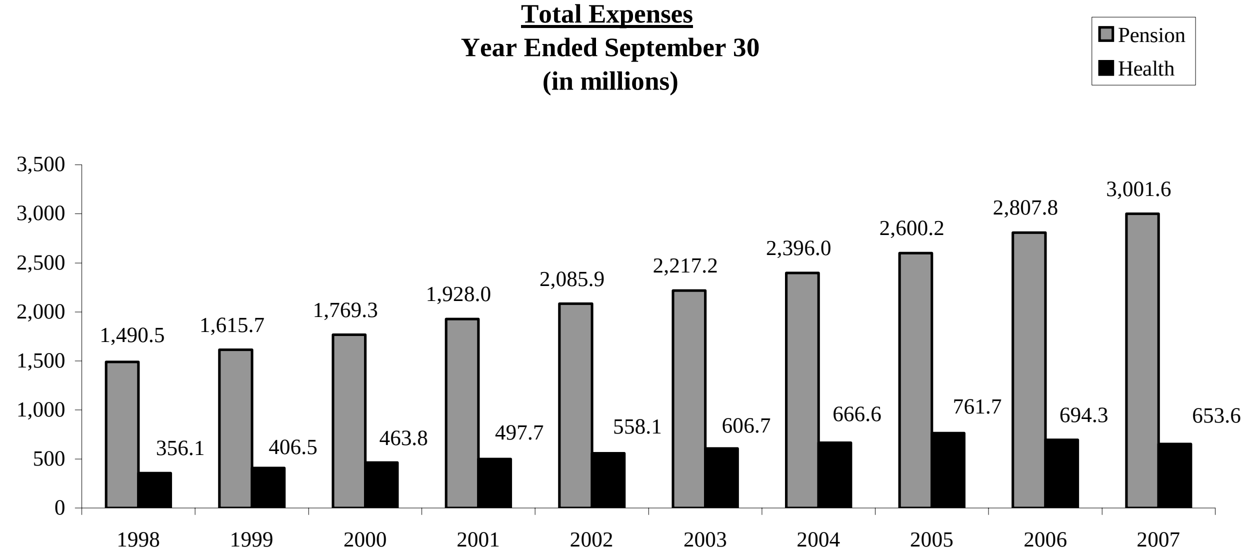
Schedule of Pension Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
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
2007	2,944,920,179	32,247,524	24,489,202	3,001,656,905

Schedule of Health Plan Expenses by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Benefit Payments	Refunds and Transfers	Administrative Expenses	Total
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	42,370	59,459,690	694,313,907
2007	590,226,465	30,580	63,315,419	653,572,464

Total Expenses
Year Ended September 30
(in millions)



Schedule of Changes in Net Assets-Pension Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Member contributions	$ 252,672	$ 518,862	$ 321,557	$ 371,548	$ 413,164	$ 379,085	$ 456,353	$ 368,241	$ 518,600	$ 356,761
Employer contributions	622,437	574,436	655,259	629,924	603,949	697,906	697,647	774,277	995,932	835,366
Net investment income	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	7,174,561
Transfer from other systems							20	15	3	6
Miscellaneous income	1	90	398	138	125	42	32	7	469	2,553
Total Additions	3,284,414	6,168,947	5,732,688	(3,574,158)	(2,716,329)	5,609,063	5,284,662	5,673,140	6,441,712	8,369,247
Pension benefits	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	2,944,920
Refunds of member contributions	21,576	11,146	17,353	19,836	20,814	13,642	18,397	22,062	23,904	32,142
Tranfer to other systems	51	53	102	17,312			26	119	123	106
Administrative expenses	14,463	16,525	15,918		23,610	23,017	19,375	19,998	22,501	24,489
Total Deductions	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	3,001,657
Changes in net assets	$ 1,793,873	$ 4,553,231	$ 3,963,379	$ (5,502,118)	$ (4,802,193)	$ 3,391,830	$ 2,888,648	$ 3,072,943	$ 3,633,892	$ 5,367,590

Schedule of Changes in Net Assets - Health Plan

Last Ten Years

(in thousands)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Member contributions	$ 27,710	$ 30,398	$ 33,673	$ 38,485	$ 43,218	$ 47,394	$ 52,766	$ 62,508	$ 71,814	$ 77,207
Employer contributions	331,557	346,165	428,997	528,273	604,628	657,409	618,831	700,366	686,929	671,680
Other governmental contributions									65	63
Net investment income	10,471	11,437	9,959	10,663	17,040	25,584	35,483	38,718	41,910	50,417
Miscellaneous income					3					261
Total Additions	369,738	388,000	472,629	577,421	664,889	730,387	707,080	801,592	800,718	799,628
Health care benefits	323,846	372,021	425,760	456,257	513,172	558,683	615,417	705,983	634,812	590,226
Refunds of member contributions	(375)		31	72	67	64	98	192	42	31
Administrative expenses	32,595	34,446	38,040	41,379	44,854	47,908	51,119	55,520	59,460	63,315
Total Deductions	356,066	406,467	463,831	497,708	558,093	606,655	666,634	761,695	694,314	653,572
Changes in net assets	$ 13,672	$ (18,467)	$ 8,798	$ 79,713	$ 106,796	$ 123,732	$ 40,446	$ 39,897	$ 106,404	$ 146,056

STATISTICAL SECTION

Schedule of Pension Benefits and Refunds by Type
Last Ten Years

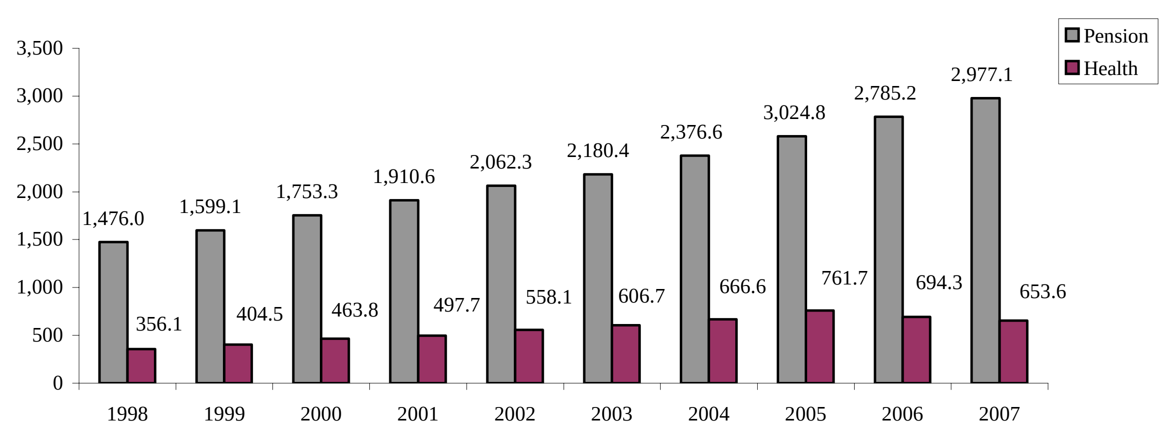
Fiscal Year Ended Sept. 30	Regular Benefits*	Disability Benefits	Survivor Benefits	Supplemental Check	Refunds	Total
1998	$ 1,412,550,359	$ 35,908,817		$ 5,992,263	$ 21,575,588	$ 1,476,027,027
1999	1,540,039,404	38,546,646		9,406,311	11,145,521	1,599,137,882
2000	1,684,018,116	40,453,574		11,464,638	17,353,351	1,753,289,679
2001	1,831,809,193	45,203,866		13,799,341	19,835,729	1,910,648,129
2002	1,976,611,796	48,253,882		16,574,185	20,813,845	2,062,253,708
2003	2,115,423,232	51,351,620			13,642,300	2,180,417,152
2004	2,304,740,438	53,475,635			18,397,014	2,376,613,087
2005	2,500,815,986	57,201,724			22,061,718	2,580,079,428
2006	2,573,912,214	52,500,929	$ 134,879,074		23,903,822	2,785,196,039
2007	2,717,579,495	53,505,192	173,835,492		32,141,952	2,977,062,131

*Includes prior post retirement adjustments

Schedule of Health Benefits and Refunds by Type
Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental/Vision Benefits	Administrative Expenses	Refunds	Total
1998	$ 285,446,554	$ 38,399,113	$ 32,594,836	$ (374,557)	$ 356,065,946
1999	331,522,164	40,499,045	34,445,866	-	406,467,075
2000	386,583,485	39,177,206	38,039,572	30,902	463,831,165
2001	407,833,031	48,424,385	41,379,358	72,407	497,709,181
2002	460,578,779	52,593,042	44,853,969	67,115	558,092,905
2003	501,566,419	57,116,502	47,907,745	64,411	606,655,077
2004	554,472,234	60,944,669	51,118,851	97,849	666,633,603
2005	641,616,478	64,367,305	55,520,031	192,144	761,695,958
2006	565,261,409	69,550,438	59,459,690	42,370	694,313,907
2007	521,420,684	68,805,781	63,315,419	30,580	653,572,464

Total Benefit Expenses
Year Ended September 30
(in millions)



Schedule of Retired Members by Type of Pension Benefit
September 30, 2006

Amount of Monthly Pension 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	13,389	11,592	1,057	110	442	1	187	7,726	2,615	1,896	111	1,041
201-400	19,450	16,021	1,514	125	1,375	1	414	11,001	3,753	3,191	225	1,280
401-600	14,384	11,672	1,116	75	1,096	1	424	7,699	2,939	2,552	231	963
601-800	11,198	8,991	884	45	856	1	421	5,658	2,245	2,123	211	961
801-1000	9,002	7,246	761	24	588	-	383	4,338	1,843	1,727	196	898
1001-1200	7,846	6,440	649	19	467	-	271	3,591	1,641	1,344	166	1,104
1201-1400	7,236	6,078	570	9	341	-	238	2,983	1,505	1,265	158	1,325
1401-1600	6,820	5,876	465	4	256	-	219	2,686	1,474	1,100	158	1,402
1601-1800	6,858	6,068	390	2	242	-	156	2,569	1,530	1,160	202	1,397
1801-2000	7,098	6,401	353	7	155	-	182	2,643	1,774	1,264	290	1,127
over 2000	53,882	51,921	1,196	5	268	1	491	23,069	10,345	11,074	2939	6,455
Totals	157,163	138,306	8,955	425	6,086	5	3,386	73,963	31,664	28,696	4,887	17,953

* 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: Gabriel Roeder Smith & Co.

Schedule of Retired Members by Type of Health Benefit
September 30, 2006

		Type of Other Post - Employment Benefits	
Amount of Monthly Pension Benefit	Eligible Retirees	Health	Dental/Vision
$ 1 – 200	13,389	7,492	8,260
201 – 400	19,450	12,467	13,501
401 – 600	14,384	10,058	10,797
601 – 800	11,198	8,359	8,889
801 – 1,000	9,002	6,914	7,299
1,001 – 1,200	7,846	6,164	6,490
1,201 – 1,400	7,236	5,810	6,116
1,401 – 1,600	6,820	5,551	5,828
1,601 – 1,800	6,858	5,606	5,881
1,801 – 2,000	7,098	5,756	6,067
Over 2,000	53,882	44,358	46,624
Totals	157,163	118,535	125,752

Schedule of Health Benefits
For Years Ended September 30, 2007 and 2006

	2007	2006
Claims		
Health Insurance	$ 237,048,768	$ 512,937,409
Vision Insurance	2,467,684	7,334,013
Dental Insurance	64,513,216	60,089,425
Total Claims	304,029,668	580,360,847
IBNR (Incurred but not reported claims)		
Health Insurance	284,371,916	52,324,000
Vision Insurance	257,881	364,000
Dental Insurance	1,567,000	1,763,000
Total IBNR	286,196,797	54,451,000
Administrative Fees		
Health Insurance	57,906,980	54,335,949
Vision Insurance	-	170,451
Dental Insurance	5,408,439	4,953,290
Total Administrative Fees	63,315,419	59,459,690
Subtotal	653,541,884	694,271,537
Refunds	30,580	42,370
Grand Total	$ 653,572,464	$ 694,313,907

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 10/1/96 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
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	$ 388	$ 176	$ 308	$ 557	$ 912	$ 1,381	$ 2,419	$ 1,500
Average Final Average Salary	8,395	17,286	17,447	23,464	29,324	35,216	53,049	38,048
Number of Active Retirants	406	4,921	18,378	23,204	21,814	17,107	71,333	157,163

Source: Gabriel Roeder Smith & Co.

Schedule of Average Benefit Payments - Health
September 30, 2006

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
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	174	190	341	593	952	1,684	2,493	1,606
Average Final Average Salary	17,201	17,372	18,411	24,056	29,679	40,967	52,919	39,334
Number of Active Retirants	217	3,710	10,952	15,987	16,465	20,803	50,401	118,535

Schedule of Average Benefit Payments - Dental/Vision
September 30, 2006

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
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	178	190	340	588	947	1,691	2,489	1,592
Average Final Average Salary	17,087	17,378	18,437	24,041	29,696	41,171	53,026	39,231
Number of Active Retirants	247	4,009	11,884	17,278	17,576	22,022	52,736	125,752

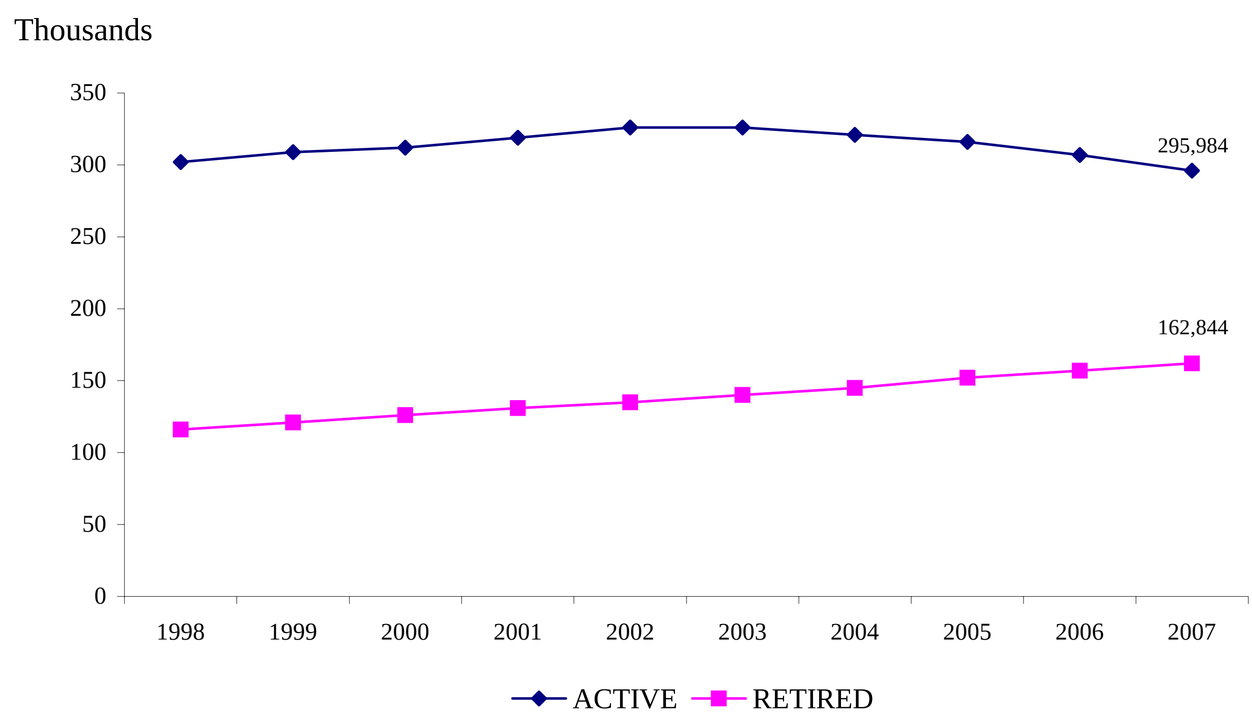
Schedule of Principal Participating Employers

For Fiscal Years Ending September 30, 2006 and 1997

	2006		1997	
Participating Employer	Employees*	Percentage of Total System	Employees*	Percentage of Total System
Detroit Public Schools	18,765	4.60 %	24,099	7.11 %
Utica Community Schools	5,438	1.33	4,065	1.20
Grand Rapids Public Schools	4,785	1.17	5,136	1.51
Ann Arbor Public Schools	4,425	1.08	4,032	1.19
Flint Community Schools	4,235	1.04	5,156	1.52
Dearborn Public Schools	3,586	0.88	2,776	0.82
Lansing Public Schools	3,501	0.86	3,603	1.06
Livonia Public Schools	3,318	0.81	3,130	0.92
Kalamazoo Public Schools	3,274	0.80	2,993	0.88
Plymouth-Canton Community S D	3,273	0.80	2,388	0.70
All other	353,641	86.63	281,697	83.09
Total	408,241	100.00 %	339,075	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 2006 data conversion.

Ten Year History of Membership
Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.

Schedule of Participating Employers through 9/30/07

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
COOR 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 9/30/07 (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 9/30/07 (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 9/30/07 (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 9/30/07 (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 9/30/07 (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 9/30/07 (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
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
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
Information Technology Academy of St Clair County
International Academy of Flint
Joseph K. Lumsden Public.School Academy
Macomb Academy
Martin Luther King, Jr. Public School Academy
Merritt Academy
Michigan Technological 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
Oakland International Academy
Outlook Academy
Plymouth Educational Center Charter School
Public Safety Academy of St. Clair County
St. Clair County Learning Academy
St. Clair County Intervention Academy
Summit Academy
Washtenaw Technical Middle College
Woodland Park Academy
YMCA Service Learning Academy

Schedule of Participating Employers through 9/30/07 (Continued)

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