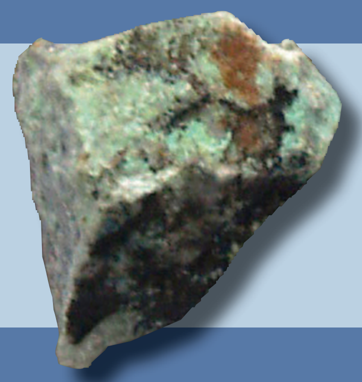
FINANCIAL SECTION

MICHIGAN ROCKS!



CHRYSOCOLLA

Chrysocolla is a copper bearing mineral that is used as copper ore and as an ornamental stone. It is a beautiful sky blue color and is often confused with turquoise. Chrysocolla is found in Houghton, Keweenaw, and most notably, the Algomah Mine in Ontonagon County.

Independent Auditor's Report

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

Independent Auditor's Report

Municipal Employees' Retirement System of Michigan Retirement Board:

We have audited the accompanying statements of plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2007, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Municipal Employees' Retirement System of Michigan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the 2006 financial statements and, in our report dated June 20, 2007, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Municipal Employees' Retirement System of Michigan as of December 31, 2007, and the changes in its financial status for the year 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 June 26, 2008 on our consideration of the Municipal Employees' Retirement System of Michigan'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 assessing the results of our audit.

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The Management's Discussion and Analysis (MD&A) on pages 14 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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 purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects 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
June 26, 2008

Management's Discussion and Analysis

This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2007, is presented in conjunction with the Chief Executive Officer's Letter of Transmittal. The financial section is comprised of the Independent Auditor's Report, Management's Discussion and Analysis, two basic financial statements with explanatory notes, two required supplementary schedules with explanatory notes and three supplementary expense schedules.

MERS was created to provide retirement, survivorship and disability benefits to qualified members and their beneficiaries. The cost of administering such benefits includes: (1) payment of monthly benefits as designated by the Defined Benefit plan, Defined Contribution plan, Investment Services Program, Health Care Savings Program and Retiree Health Funding Vehicle (2) refund of member contributions requested by employees that separate from employment, and (3) payment of all administrative and investment costs associated with administering the plans.

Basic Financial Statements

1. Statement of Plan Net Assets (pages 20-21)
2. Statement of Changes in Plan Net Assets (pages 22-23)
3. Notes to Basic Financial Statements (pages 24-40)
4. Comparison Statement of Plan Net Assets (page 16)
5. Comparison Statement of Changes in Plan Net Assets (page 17)

The Defined Benefit plan, Defined Contribution plan, Investment Services Program, Health Care Savings Program and Retiree Health Funding Vehicle are premised upon long-term investing. Therefore, current financial statements alone do not provide the total perspective to properly assess the Retirement System's long-term financial condition.

The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" provide the current financial condition of the 685 individual municipal Defined Benefit plans, 146 individual municipal Defined Contribution plans, 83 Health Care Savings Programs, 68 Retiree Health Funding Vehicle plans and 3 Investment Services Programs administered by MERS.

The "Comparison Statement of Plan Net Assets" and "Comparison Statement of Changes in Plan Net Assets" presented later in the Management's Discussion and Analysis provide a comparative summary of the financial condition of the Retirement System as a whole.

Required Supplemental Information

1. Schedule of Funding Progress (page 41)
2. Schedule of Employer Contributions (page 41)
3. Notes to the Schedules of Required Supplementary Information (pages 42-43)

The "Schedule of Funding Progress" shows the progress MERS has made in accumulating sufficient assets to pay future retirement benefits when due. The schedule sets forth the actuarially funded status of the Defined Benefit plan with historical trends in funding. The "Schedule of Employer Contributions" shows the current annual employer contributions and the historical trend of employer contributions. From a long-term investment perspective, these schedules provide a better understanding of the changes over time in the funded status of the plan.

Expense Schedules

1. Schedule of Administrative Expenses (page 44)
2. Schedule of Investment Expenses (page 45)
3. Schedule of Payments to Consultants (page 46)

The expense schedules summarize all expenses associated with administering the Defined Benefit plan.

Financial Highlights

The following financial highlights occurred during fiscal year ended December 31, 2007:

- Total plan net assets for the Defined Benefit plan, Defined Contribution plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program increased by $603 million during the 2007 fiscal year. This was primarily due to net gains in investments of $478 million dollars.

- Total pension benefits paid to retirees and beneficiaries increased $37 million to a total of $352 million. While contributions exceeded pension benefit payments by $150 million in 2007 (primarily due to new municipalities joining MERS and transfers into the Retiree Health Funding Vehicle and Investment Services Program), the cash flow trend in the past few years has shown pension benefit payments are increasingly exceeding contributions. This is normal plan cycling as the Defined Benefit plan matures and is due in large part to baby boomers reaching retirement age and drawing pension benefits.

- Transfers from the Defined Benefit plan to the Defined Contribution plan increased by $974 thousand. The number of new hires in Defined Contribution continues to increase relative to the Defined Benefit plan members. (See page 88)

- Total employer contributions increased by 25% to $434 million, but employee contributions decreased 25% down to $68 million. Again, much of the employer contribution increase was due to new municipalities joining MERS Defined Benefit plan, Defined Contribution plan, Retiree Health Funding Vehicle, Investment Services Program and Health Care Savings Program. Employer and employee contributions from new municipalities were $52 million in 2007 compared to $99 million in 2006. Employer contributions in the Defined Benefit plan have increased in recent years due to municipalities adopting enhanced benefits and the market declines of 2000-2002.

- Administrative expenses totaled $14 million. Much of this increase was due to the added costs of hiring additional staff and depreciation of software, computer servers and office equipment used in administering the Defined Benefit plan with 66,436 members and Defined Contribution plan with 7,443 members.

- Investment expenses totaled $21 million. The largest expense is due to higher investment manager fees increasing to $19.5 million. This was not unexpected with the market increases of the past year.

Using this Financial Report

Because of the long-term nature of a Defined Benefit plan, financial statements alone cannot provide sufficient information to properly reflect the Retirement System's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" (pages 20-23) provide financial information about the activities of the 982 individual municipal plans administered by MERS in its Defined Benefit plan, Defined Contribution plan, Retiree Health Funding Vehicle, Health Care Savings Program and Investment Services Program, as well as comparative summary information about these activities for the Retirement System as a whole.

The "Schedule of Funding Progress" (page 41) includes historical trend information about the actuarially funded status of the Defined Benefit plans from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The "Schedule of Employer Contributions" (page 41) presents historical trend information about the annual actuarially required contributions of employers and the actual contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the Defined Benefit plans.

Comparison Statement of Plan Net Assets

Assets	As of December 31, 2007	As of December 31, 2006	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and Short-Term Investments	$ 146,267,940	$ 225,530,139	$ (79,262,199)	-35.14%
Receivables	66,889,486	224,851,017	(157,961,531)	-70.25%
Interfund Receivables	941,456	1,202,304	(260,848)	-21.70%
Investments, at fair value	6,406,130,851	5,769,420,916	636,709,935	11.04%
Invested Securities Lending Collateral	709,449	905,007,240	(904,297,791)	-99.92%
Other Assets/Prepaids	259,216	337,474	(78,258)	-23.19%
Net Capital Assets	6,554,063	6,641,104	(87,041)	-1.31%
Total Assets	**6,627,752,461**	**7,132,990,194**	**(505,237,733)**	**-7.08%**
Liabilities				
Purchase of Investments	146,851,175	348,526,226	(201,675,051)	-57.87%
Securities Lending Collateral	709,449	905,007,240	(904,297,791)	-99.92%
Administrative and Investment Costs	14,295,008	15,890,222	(1,595,214)	-10.04%
Interfund Payables	941,456	1,202,304	(260,848)	-21.70%
Other Accounts Payable	29,475	16,843	12,632	75.00%
Total Liabilities	**162,826,563**	**1,270,642,835**	**(1,107,816,272)**	**-87.19%**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	**$ 6,464,925,898**	**$ 5,862,347,359**	**$ 602,578,539**	**10.28%**

Comparison Statement of Changes in Plan Net Assets

	Year ended December 31, 2007	Year ended December 31, 2006	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	$ 502,497,000	$ 439,052,040	$ 63,444,960	14.45%
Transfers from Defined Benefit Plan	1,725,549	751,161	974,388	129.72%
Transfers from Other Plans and Other Items	1,184,321	8,112,861	(6,928,540)	-85.40%
Investment Net Income Investing Activities	474,740,239	656,892,178	(182,151,939)	-27.73%
Investment Net Income-Securities Lending	3,363,352	2,524,348	839,004	33.24%
Miscellaneous Income	1,067,367	790,789	276,578	34.97%
Total Additions	**984,577,828**	**1,108,123,377**	**(123,545,549)**	**-11.15%**
Deductions				
Benefits	352,221,202	314,764,086	37,457,116	11.90%
Refunds of Contributions	6,288,216	4,711,038	1,577,178	33.48%
Special Expenses and Fees	1,171,617	542,942	628,675	115.79%
Transfers to Defined Contribution Plan	1,725,549	751,161	974,388	129.72%
Medical Disbursements Paid to Members	328,172	144,699	183,473	126.80%
Disbursements Paid to Municipalities	5,827,116	1,109,386	4,717,730	425.26%
Forfeited Employer Contributions	29,295	44,724	(15,429)	-34.50%
Administrative Expense	14,408,122	13,021,687	1,386,435	10.65%
Total Deductions	**381,999,289**	**335,089,723**	**46,909,566**	**14.00%**
Net Increase	**602,578,539**	**773,033,654**	**(170,455,115)**	**-22.05%**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	5,862,347,359	5,089,313,705	773,033,654	15.19%
Balance End of Year	**$ 6,464,925,898**	**$ 5,862,347,359**	**$ 602,578,539**	**10.28%**

Analysis of Plan Net Assets

Combined plan net assets increased by $603 million over the previous fiscal year. Looking at additions to and deductions from plan net assets, the increase in net assets was primarily attributable to economic conditions (the stock market's rise), municipalities increasing benefit multipliers, and adopting benefit enhancements resulting in higher employer/employee contributions. Deductions from plan net assets were attributable to an 12% increase in pension benefit payouts due to a greater number of retirees and post retirement cost-of-living increases.

Employer and employee contributions increased $63 million due chiefly to municipalities joining MERS plans bringing in $52 million. The remaining increases were due to higher required actuarial contribution rates resulting from increases in salaries, benefit enhancements, plan modifications, and an increase in the number of employees.

In determining contribution rates through 2007, MERS actuary used a five-year smoothing method to recognize market gains and losses. This has tempered many of the market losses over the three down market years. For 2003, the Retirement Board adopted a one-time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. For 2003, no gain or loss was recognized. The aggregate loss amount of $388,778,035 was to be recognized in four equal dollar installments in 2004-2007. In 2004, the normal five-year smoothing method was reinstituted. On December 31, 2005, with prospective application, the MERS Board adopted a ten-year smoothing method for calculating valuation assets to further reduce the volatility of employer contribution rates. Employers are also shifting more of the responsibility for contribution requirements on to employees to pay for better benefit plans.

MERS has capital assets of approximately $6.6 million, mostly comprised of software and computer servers needed to run the Retirement System's pension and financial programs.

MERS has no long-term liabilities. The bulk of MERS liabilities at year end related to investment purchases that did not settle until early in 2008 and accrued administrative and investment expenses.

Investment Activities

The total fund investment performance on a comparative basis to the benchmarks was excellent. The positive gross return of 8.6% was above the long-term net 8% actuarial return assumption target for the year. On both a five and ten year basis, the gross returns of 13.6% and 8.2% respectively, compared favorably to the actuarial return assumption. Net investment income (net increase in fair value, plus investment earnings, less investment administrative expenses) was $478 million for the year. The stock market is in its fifth year of positive returns after three years of negative returns. A further detailed analysis of investment returns may be found in the Investment Section.

MERS Retirement System investments are managed to control the extent of downside risk to which assets are exposed while maximizing long-term gain potential. This positions the Retirement System to limit the impact of adverse market conditions. Portfolio diversification by asset class and style is an important element of investment risk control.

Investment activity is governed by the "prudent person rule." The "prudent person rule" establishes a standard for all fiduciaries that includes anyone who has authority with respect to the Retirement System. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the Retirement System participants and beneficiaries and with a degree of diligence, care, and skill that a prudent person would ordinarily exercise under similar circumstances.

The "prudent person rule" permits the Board to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment managers. Investment constraints are outlined, including the appropriate degree of risk. Investment managers are hired to execute the investment policy. They have full discretion for investment decisions within statutory authority, Board policy, and their respective guidelines. A list of investment managers under contract with the Retirement System as of December 31, 2007, is found on page 10 of this report. A summary of the total Retirement System's assets can be found on page 58.

Historical Trends

Accounting standards require that the "Statement of Plan Net Assets" state investment asset values at fair value and include only benefits and refunds due plan members, beneficiaries, accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Defined Benefit plan is provided in the "Schedule of Funding Progress" (page 27). The asset value stated in the "Schedule of Funding Progress" is the actuarial value of assets as determined by calculating the ratio of market value to book value of assets over a five-year period. The funded ratio increased from 76.0% to 76.4% for the 2006 valuation. The actuarial assumptions used in the most recent valuation are identified in the "Notes to the Schedules of Required Supplementary Information" (page 42-43).

Annual required employer contributions as determined by the actuary and the actual contributions made by employers are provided in the "Schedule of Employer Contributions" (page 41). This schedule indicates that employers are meeting their actuarially required contribution payments.

MERS overall financial condition improved for the fiscal year ended 2007, and the plan remains stable and viable for the years to come. The market upturn in 2007 and the downturns of 2000-2002 are historically considered to be normal market cycles in the overall economic process.

Funding Status

A pension plan is well funded when it has sufficient assets invested to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of assets to actuarial accrued liability. While the plan is not totally funded, annual contributions are being made at an actuarially determined rate to reach full funding. There is no single all-encompassing test for measuring a retirement system's funding progress and current funded status. However, some common indicators of the progress that a retirement system has achieved in funding their obligations include observing the changes over time of the ratio of valuation assets to actuarial accrued liabilities, and the pattern of the unfunded actuarial accrued liability as a percentage of active payroll. These ratios and numbers are found in the Required Supplementary Information.

MERS Retirement Board has adopted a funding methodology for the Retirement System to achieve the following major objectives:

- To develop level required contribution rates as a percentage of payroll;
- To finance benefits earned by present employees on a current basis;
- To accumulate assets to enhance members' benefit security;
- To produce investment earnings and interest on accumulated assets to help meet future benefit costs;
- To make it possible to estimate the long-term actuarial cost of proposed amendments to system provisions; and
- To assist in maintaining the Retirement System's long-term financial viability.

The actuarial method for calculating the accrued liability for all plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. A detailed discussion of the funding method is provided in the Actuarial Section of this report starting on page 63. Based upon the valuation results, MERS continues to be in sound financial health in accordance with actuarial principles of level percent of payroll financing.

Statement of Plan Net Assets as of December 31, 2007

Assets	Defined Benefit*	Defined Contribution
Cash and Short-Term Investments	$ 116,521,372	$ 29,263,526
Receivables		
Employer Contributions	26,560,636	
Plan Member Contributions	5,454,768	
Sale of Investments	14,394,206	
Investment Income	17,971,933	
Loans		2,012,723
Interfund Receivables	941,456	
Other	495,220	
Total Receivables	65,818,219	2,012,723
Investments, at fair value		
Fixed Income	1,906,913,398	10,546,774
Equities	3,720,290,610	79,759,775
Balanced Funds		108,989,750
Real Estate	411,126,290	
Total Investments	6,038,330,298	199,296,299
Invested Securities Lending Collateral	709,449	
Prepaid Expenses	259,216	
Capital Assets, at cost, net of accumulated depreciation	6,554,063	
Total Assets	**6,228,192,617**	**230,572,548**
Liabilities		
Purchase of Investments	146,851,175	
Securities Lending Collateral	709,449	
Administrative and Investment Costs	14,295,008	
Interfund Payables		
Other Accounts Payable		
Total Liabilities	**161,855,632**	**-**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	**$ 6,066,336,985**	**$ 230,572,548**

* The "Schedule of Funding Progress" is presented in the Required Supplementary Information in the Financial Section of this report. The accompanying notes are an integral part of these Financial Statements

Health Care Savings Program	Retiree Health Funding Vehicle	Investment Services Program	Year Ended December 31, 2007	Year Ended December 31, 2006
$ 73,665	$ 266,309	$ 143,068	$ 146,267,940	$ 225,530,139
			26,560,636	32,289,390
			5,454,768	9,045,805
			14,394,206	170,354,735
			17,971,933	11,181,004
			2,012,723	1,914,278
			941,456	1,202,304
			495,220	65,805
-	-	-	67,830,942	226,053,321
3,304,076	35,766,105	14,143,705	1,970,674,058	1,911,109,441
6,446,084	69,777,844	27,593,645	3,903,867,958	3,302,714,838
			108,989,750	93,889,086
712,351	7,711,093	3,049,351	422,599,085	461,707,551
10,462,511	113,255,042	44,786,701	6,406,130,851	5,769,420,916
			709,449	905,007,240
			259,216	337,474
			6,554,063	6,641,104
10,536,176	**113,521,351**	**44,929,769**	**6,627,752,461**	**7,132,990,194**
			146,851,175	348,526,226
			709,449	905,007,240
			14,295,008	15,890,222
690,170	176,779	74,507	941,456	1,202,304
27,732	1,743		29,475	16,843
717,902	**178,522**	**74,507**	**162,826,563**	**1,270,642,835**
$ 9,818,274	**$ 113,342,829**	**$ 44,855,262**	**$ 6,464,925,898**	**$ 5,862,347,359**

Statement of Changes in Plan Net Assets for the Year Ended as of December 31, 2007

Additions	Defined Benefit	Defined Contribution	Health Care Savings Program
Contributions and Transfers In			
Employer Contributions and Other	$ 320,203,718	$ 17,590,799	$ 2,927,102
Plan Member Contributions	61,771,740	6,309,939	
Employer Transfers In		1,040,071	
Plan Member Transfers In		685,478	
Transfers from Other Plans and Other Items		1,184,321	
Total Contributions and Transfers In	381,975,458	26,810,608	2,927,102
Investment Income			
Net Appreciation in Fair Value of Investments	351,789,125		
Interest Income	64,095,023		
Dividend Income	48,397,882		
Real Estate Operating Income, net	8,732,374		
Commission Recapture Income	104,114		
DC Plan Investment Income		13,411,117	
Investment Income			719,462
Service Charge Revenue			89,162
Miscellaneous Revenue			7,151
	473,118,518	13,411,117	815,775
Less Investment Expense	21,268,479		
Net Investment Income Before Securities Lending Activities	451,850,039	13,411,117	815,775
Security Lending Activities			
Security Lending Income	44,450,377		
Security Lending Expenses			
Borrower Rebates	40,246,713		
Management Fees	840,312		
Total Securities Lending Expenses	41,087,025		
Net Income from Security Lending Activities	3,363,352		
Total Net Investment Income	455,213,391	13,411,117	815,775
Miscellaneous Income	1,067,367		
Total Additions	**838,256,216**	**40,221,725**	**3,742,877**
Deductions			
Benefits	339,456,920	12,764,282	
Refunds of Contributions			
Employer	1,230,274		
Plan Member	5,057,942		
Special Expenses and Fees	587,685		89,102
Transfers to Defined Contribution Plan			
Employer	1,040,071		
Plan Member	685,478		
Medical Disbursements Paid to Members			328,172
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			29,295
Administrative Expenses	13,903,553		243,953
Total Deductions	**361,961,923**	**12,764,282**	**690,522**
Net Increase	**476,294,293**	**27,457,443**	**3,052,355**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others			
Balance Beginning of Fiscal Period	5,590,042,692	203,115,105	6,765,919
Balance End of Fiscal Period	**$ 6,066,336,985**	**$ 230,572,548**	**$ 9,818,274**

The accompanying notes are an integral part of these Financial Statements.

Retiree Health Funding Vehicle	Investment Services Program	Year Ended December 31, 2007	Year Ended December 31, 2006
$ 67,013,503	$ 26,680,199	$ 434,415,321	$ 348,498,467
		68,081,679	90,553,573
		1,040,071	646,754
		685,478	104,407
		1,184,321	8,112,861
67,013,503	26,680,199	505,406,870	447,916,062
		351,789,125	551,193,919
		64,095,023	49,381,422
		48,397,882	34,417,629
		8,732,374	13,445,618
		104,114	228,362
		13,411,117	19,224,093
6,144,495	2,177,009	9,040,966	5,838,380
332,016		421,178	148,101
9,788		16,939	47,015
6,486,299	2,177,009	496,008,718	673,924,539
		21,268,479	17,032,361
6,486,299	2,177,009	474,740,239	656,892,178
		44,450,377	43,559,939
		40,246,713	40,405,059
		840,312	630,532
		41,087,025	41,035,591
		3,363,352	2,524,348
6,486,299	2,177,009	478,103,591	659,416,526
		1,067,367	790,789
73,499,802	**28,857,208**	**984,577,828**	**1,108,123,377**
		352,221,202	314,764,086
		1,230,274	-
		5,057,942	4,711,038
332,016	162,814	1,171,617	542,942
		1,040,071	646,754
		685,478	104,407
		328,172	144,699
5,827,116		5,827,116	1,109,386
		29,295	44,724
185,108	75,508	14,408,122	13,021,687
6,344,240	**238,322**	**381,999,289**	**335,089,723**
67,155,562	**28,618,886**	**602,578,539**	**773,033,654**
46,187,267	16,236,376	5,862,347,359	5,089,313,705
$ 113,342,829	**$ 44,855,262**	**$ 6,464,925,898**	**$ 5,862,347,359**

Notes to Basic Financial Statements
Year ended December 31, 2007

1. Reporting Entity and Plan Description

The Municipal Employees' Retirement System (MERS) is an agent multiple-employer, statewide, public employee pension plan created under Public Act 135 of 1945, repealed and replaced by successor Municipal Employees' Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, and the MERS Plan Document, as revised. MERS was established to provide a pooled program for retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. The MERS Plan Document provides for the Defined Benefit plan, Defined Contribution plan, Investment Services Program, Health Care Savings Program and the Retiree Health Funding Vehicle. See Note 6 for the Defined Contribution plan (page 37-38). See Note 7 for the Health Care Savings Program and Retiree Health Funding Vehicle (page 38-39). See Note 8 for the Investment Services Program (page 39).

Pursuant to 1996 PA 220, on August 15, 1996, MERS became an independent non-profit public corporation, which is an instrumentality of the participating municipalities and courts. Prior to that time, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. Since then, MERS is solely administered by a nine member Retirement Board consisting of the following members, each of whom, except for the retiree member and the Retirement Board appointees, shall be from a different county at the time of election:

> Two members, who are appointed by the Retirement Board, who have knowledge or experience in retirement systems, administration of retirement systems, or investment management or advisory services.
>
> One member, who is a retiree of the Retirement System, is appointed by the Retirement Board.
>
> Three members of the Retirement System, who are officers of a participating municipality or of a participating court, who shall be elected as officer Board members by the delegates to an Annual Meeting of the Retirement System.
>
> Three employee members of the Retirement System, who are not officers of a participating municipality or of a participating court, who shall be elected as employee Board members by the delegates to an Annual Meeting of the Retirement System.

The regular term of office for members of the Retirement Board is three years. Members of the Retirement Board serve without compensation with respect to their duties, but are reimbursed by the Retirement System for their actual and necessary expenses incurred in the performance of their duties.

MERS Participating Municipalities as of December 31, 2007

Counties	65
Cities and Villages	258
Townships	83
County Road Commissions	58
Authorities, Districts and Others	203
Closed Groups	18
Total	**685**

Any "municipality" as that term is defined by Section 2b (2) of the Retirement Act, Michigan Compiled Law 38.1502b (2), within the state may elect to become a participating member of MERS by a majority vote of the municipality's governing body or by an affirmative vote of the qualified electors. Changes in benefit coverage are available to bargaining units after approval by a majority vote of the municipality's governing body.

MERS Defined Benefit Membership as of December 31, 2007

Retirees and Beneficiaries Currently Receiving Benefits	
Retirement annuities	17,955
Survivor annuities	3,621
Disability annuities	1,161
Total	22,737
Vested former members	6,027
Current active employees	37,672
Total Membership	**66,436**

Benefit plans and provisions that are available for adoption are established by the Retirement Board. All benefits vest after six, eight or ten years of service depending on the plan adopted by the municipality's governing body. The standard retirement age is 60 years. Municipalities may also adopt various other benefit plan options allowing retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. Employees may retire after reaching several combinations of age and years of service to receive reduced early retirement benefits. MERS also provides non-duty disability and non-duty death benefits to employees after vesting requirements are met. The vesting requirements provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the employee's or survivor's lifetime and are equal to a specific percentage of the employee's final average compensation times the number of years of credited service. The specific percentage depends on the benefit plan or plans adopted by each municipality for its employees.

Pursuant to Article 9 Section 24 of the Constitution of the State of Michigan, "The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby. Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities." Employees contribute to the Retirement System at rates that range from 0 to 22.34% depending on the benefit plan adopted by the municipality. If an employee leaves employment or dies before becoming eligible for retirement benefits, accumulated employee contributions (plus interest) are refunded to the employee or designated beneficiary upon application.

The MERS programs have been determined to be a governmental plan that is a tax-qualified trust, under Internal Revenue Code (the Code) Section 401(a), and tax exempt under Section 501(a). The most recent Letter of Favorable Determination for MERS was issued by the IRS on June 15, 2005. The benefits of tax-qualified status include the preferential def erred taxability of contributions, accumulated earnings, pensions, rollovers, annual compensation limits, and benefit limitations.

Under the Code, the major portion of a retiree's pension becomes taxable upon periodic distribution. Pursuant to IRC Section 72(d), any "after tax contributions" are recovered tax-free over the life expectancy of the retiree (or beneficiary, if applicable).

IRC Section 401(a) (17) limits the amount of compensation that an active employee can receive for pension benefit caluculation purposes and, correspondingly, limits the amount of employer and employee contributions. Compensation in excess of the 401(a) (17) limit ($225,000 for 2007 and increasing to $230,000 in 2008) will not be credited by MERS. Contributions in excess of the IRS limit will not be collected or accepted, nor figure into final average compensation for benefit purposes.

In addition, IRC Section 415 (b)(1)(A) imposes certain limitations on pension benefit payments from the MERS qualified trust. Any amounts that exceed the limitations shall be paid from a Qualified Excess Benefit Arrangement (QEBA), as authorized by IRC Section 415(m) and Michigan Compiled Law 38.1686. The QEBA shall be a separate plan, and is annually cash funded by the affected participating municipality or court. The Retirement Board established the MERS QEBA in 2003 solely for the purpose of providing to retirees and beneficiaries, that portion of the retirement allowance exceeding the Section 415 limits and otherwise not payable by the trust under the terms of the MERS qualified plan. Internal Revenue Service approval of the QEBA was pursuant to Private Letter Ruling issued December 15, 2003. Retirees and beneficiaries do not have an election, directly or indirectly, to defer compensation to the QEBA.

2. Summary of Significant Accounting Policies

Reporting Entity
The Retirement Board is responsible for administration of the Retirement System, has fiduciary responsibility for the investment of assets, and oversees all funds included in these financial statements. The Retirement Board appoints the Chief Executive Officer who manages and administers the Retirement System under the supervision and direction of the Board.

Since MERS is an independent public corporation, MERS financial statements are not included in the financial statements of any other organization. MERS is the only entity included in this financial report.

The costs of administering the plan are allocated out to the municipalities along with investment gains and losses on a quarterly basis.

Basis of Accounting
The financial statements for MERS are prepared on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). Employer and employee contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

GASB 27
Governmental Accounting Standards Board (GASB) Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers,” requires certain changes in reporting pensions by employers. The following section is required and pertains to MERS staff only. Prior to separation from the State of Michigan on August 15, 1996, the pension liability for MERS staff remained the obligation of its official employer, the State of Michigan. Therefore, MERS has no pension liability for staff prior to August 15, 1996, when it began independent payroll processing separate and apart from the state.

The Retirement Board, as an employer, elected after separation in 1996 to become a participating municipality in MERS Defined Benefit plan to provide pension benefits for MERS staff. Vesting occurs after 6 years of credited service. Normal retirement age is age 60, although an employee may retire at age 55 with 30 years of credited service. The annual pension benefit is calculated by multiplying the employee’s years of credited service by 2.25% and then multiplying it by the Final Average Compensation (FAC) based on the highest consecutive three years of compensation. MERS contributed 12.28% of compensation in 2007; employees contributed 2% of compensation in 2007.

The following pension information for GASB 27 applies to MERS staff only:

Schedule of Funding Progress

Actuarial Valuation December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2004	$ 2,591,903	$ 3,694,402	$ 1,102,499	70.16%	$ 3,603,548	30.59%
2005	3,454,714	4,773,326	1,318,612	72.38	4,410,167	29.90
2006	4,498,837	6,336,642	1,837,805	71.00	5,374,269	34.20

Actuarial Accrued Liability from December 31, 2006 and December 31, 2005 Actuarial Valuations

	2006	2005
Retirees and beneficiaries currently receiving benefits	$ 941,664	$ 525,441
Vested former members not yet receiving benefits	28,442	41,211
Nonvested terminated employees (pending refunds of accumulated member contributions)	9,065	17,801
Current employees		
Accumulated employee contributions, including allocated investment income	622,622	509,802
Employer financed	4,734,849	3,679,071
Total Actuarial Accrued Liability	**6,336,642**	**4,773,326**
Net assets available for benefits at actuarial value ($4,561,771 and $3,363,679 at market value for December 31, 2006, and 2005, respectively)	4,498,837	3,454,714
Unfunded actuarial accrued liability	**$ 1,837,805**	**$ 1,318,612**

Three-Year Trend Information Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2005	$ 259,500	100%	-
December 31, 2006	451,164	100	-
December 31, 2007	541,572	100	-

Changes in Accounting Principles

GASB Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The requirements of this statement will be implemented in the financial statements for fiscal year 2008.

Fair Value of Investments

In accordance with GASB 25, plan investments are presented at fair value. Short-term investments are valued at cost plus accrued interest, which approximates 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 upon equivalent values of comparable securities with similar yield and risk. Independent appraisals are the basis for valuing the fair value of real estate. Other investments that do not have established markets are recorded at an estimated fair value.

Capital Assets

Office furniture, equipment, and software with a value of $5,000 or more are carried at cost, less accumulated depreciation. The capital assets are depreciated using the straight-line method over the estimated useful lives of the related assets varying from three- to five-year spans. The table below is a schedule of the capital asset account balances as of December 31, 2006, and December 31, 2007, and changes to those account balances during the year ended December 31, 2007.

Capital Assets

Capital Assets	Office Building	Office Furniture and Equipment	Software	Total Capital Assets
Balances December 31, 2006	$ 199,905	$ 1,975,138	$ 16,997,060	$ 19,172,103
Additions		665,464	1,101,798	1,767,262
Deletions and Transfers	(179,453)	(94,544)		(273,996)
Balances December 31, 2007	20,452	2,546,058	18,098,858	20,665,368
Accumulated Depreciation				
Balances December 31, 2006	-	1,626,046	10,904,953	12,530,999
Depreciation Expense		271,284	1,403,565	1,674,849
Deletions and Transfers		(94,544)		(94,544)
Balances December 31, 2007	-	1,802,786	12,308,518	14,111,304
Net Capital Assets December 31, 2007	**$ 20,452**	**$ 743,272**	**$ 5,790,340**	**$ 6,554,064**

Total Columns on Statements
"Total" columns on the "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" are presented to facilitate financial analysis. Amounts in these columns do not present the plan net assets and changes in plan net assets in conformity with the U.S. GAAP nor is such data comparable to a consolidation. Transactions between the Defined Benefit plan, Defined Contribution plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program have not been eliminated from the "Total" columns.

3. Contributions and Reserves

Contributions
Contribution funding requirements are actuarially determined using the Entry Age Normal actuarial cost method and are based upon the benefit plan adopted by the municipality. Some municipalities fund their entire pension obligations solely from employer contributions. Other municipalities jointly fund pension obligations from employee and employer contributions. Monthly employee contributions are based upon a percentage of actual compensation as determined by an Annual Actuarial Valuation. Employer contributions are based upon projected compensation as determined by an Annual Actuarial Valuation. Employee contributions are held in individual member accounts that are credited with interest annually. Pursuant to Board resolution adopted November 9, 2005, the interest rate for each year beginning in 2005 is the one year T-bill rate as of December 1 each year for the ensuing December 31st employee interest calculation. It is also for interest calculations for the subsequent year for those employees requesting a refund of their contributions. The employee contribution rates vary from 0% to 22.34% according to the benefit plan adopted. See "Schedule of Employer Contributions" (page 41).

Reserves
Three reserves have been established pursuant to the MERS Plan Document for the Defined Benefit plan. See "Schedule of Changes in Reserves" (pages 90-91).

- Reserve for Employee Contributions: Employee contributions and interest are credited to this reserve. Also credited to the reserve are monies received from the purchase of service credit and monies received in repayment of previously refunded contributions. The reserve is reduced by amounts paid to employees who terminate employment and request refunds, and by amounts transferred into the "Reserve for Employer Contributions and Benefit Payments" upon an employee's retirement. Interest is credited to each employee's account, as provided in the Board's November 9, 2005 Resolution. The reserve's balance at year end December 31, 2007, was $584,969,263. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2006 MERS Consolidated Actuarial Valuation.

- Reserve for Employer Contributions and Benefit Payments: All employer contributions are credited to this reserve. Net income is allocated to this reserve from the "Reserve for Expenses and Undistributed Income." At retirement, an employee's accumulated contributions, if any, including interest, are transferred into this reserve from the "Reserve for Employee Contributions." Monthly benefits paid to retirees reduce this reserve. The December 31, 2007 balance is $5,481,367,722. The unfunded liability was $1,693,983,211 (based on the actuarial value of assets) as of the December 31, 2006 MERS Consolidated Actuarial Valuation.

- Reserve for Expenses and Undistributed Investment Income: All investment earnings and all other monies received that are not dedicated to other reserves are credited to this reserve. All administrative and investment expenses are paid from this reserve. Transfers from this reserve to the “Reserve for Employer Contributions and Benefit Payments” are at allocation rates determined by the Retirement Board. In 2007, the Retirement Board allocated 100% from the “Reserve for Expenses and Undistributed Investment Income” to the “Reserve for Employer Contributions and Benefit Payments,” leaving a zero balance at year end.

4. Investments

Investments

The Retirement Board has the fiduciary responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to manage the Retirement System’s assets. All investment decisions are subject to statutory regulations imposed under the Michigan Public Employees Retirement Systems Investment Act, 1965 PA 314, as amended, and the investment policy guidelines established by the Retirement Board. Michigan law allows diverse investment in stocks, corporate and government bonds, mortgages, real estate, alternative investments, and other investments. The Act sets forth prudent standards and requires that the assets of a retirement system be invested solely in the interest of the participants and beneficiaries. Under Plan Document Section 55(6), and 1965 PA 314, and Section 401(a)(2) of the Internal Revenue Code, the investments shall be made for the exclusive purpose of providing benefits to the participants and their beneficiaries, and defraying reasonable expenses of the Retirement System.

The Retirement Board’s investment policy requires independent performance measurement of investment managers and establishes total return objectives for the total portfolio and major categories of investments. As of December 31, 2007, all securities held met the required statutory provisions and Retirement Board policy. As of the same dates, no investments were in default or subject to bankruptcy proceedings that had not been previously written down.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MERS. Credit risk exposure is dictated by each investment manager’s agreement. Other criteria for active managers based on MERS Retirement Board investment policy, includes that if a security is downgraded below investment grade after purchase, a review with a written explanation shall be forwarded to the investment staff. Board policy also allows that when calculating the average rating of the portfolio, the manager may utilize the highest rating of the major rating agencies to calculate the average. Board policy in regards to global fixed income securities is that no more than 10% of the portfolio may be invested in corporate bonds or sovereign bonds rated below investment grade, as defined by Moody’s and Standard & Poors. Board policy for global fixed income securities is that the average weighted credit of the portfolio will be a minimum of A-. When calculating the average rating of the global portfolio, the manager may utilize the highest rating of the major agencies to calculate the average. Board policy in regards to global non-investment grade fixed income securities includes criteria that credit quality must maintain a minimum of 10% of the portfolio in investment grade fixed income with at least two ratings of BBB-/Baa3 or higher (as assigned by Standard & Poors or Moody’s). Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio.

As of December 31, 2007, the domestic fixed income portfolio consisted of the following fixed income investments with respective quality ratings, excluding those obligations of the U.S. government. Investments issued by or explicitly guaranteed by the U.S. government are not considered to have credit risk. The Plan's exposure to credit risk as of December 31, 2007, is presented below, by investment category as rated by Standard & Poors.

Credit Ratings Summary – December 31, 2007

Quality Rating	Corporate Bonds	Bond Index Fund	Mortgages	Asset Backed	U.S. Agency Bonds	Foreign Government	Municipals	Global Fixed Income	Total	% of Portfolio
AAA	$ 9,451,888	$ 267,365,275	$ 96,955,658	$ 50,736,795	$ 55,514,430	$ 654,263	$ 7,578,658	$ 171,152,670	$ 659,409,637	46%
AA+	8,190,920							1,970,783	10,161,702	1%
AA	15,651,442	25,022,368	203,319					19,336,050	60,213,179	4%
AA-	25,505,489							3,365,299	28,870,788	2%
A+	12,630,493					590,657		13,314,546	26,535,695	2%
A	19,200,434	35,082,159		124,547		178,023	7,868,921	2,003,541	64,457,626	5%
A-	15,075,980					3,103,969		4,426,521	22,606,470	2%
BBB+	35,264,155					16,627,667		2,952,301	54,844,123	4%
BBB	24,830,011	35,699,547		278,657		217,360		960,150	61,985,725	4%
BBB-	18,368,452					3,446,699		1,148,623	22,963,774	2%
BB+	12,583,170			95,517		16,434,759		2,163,762	31,277,208	2%
BB	13,275,211		170,335			2,138,211		1,458,395	17,042,152	1%
BB-	9,215,513					19,237,692		2,759,024	31,212,230	2%
B+	8,138,519					6,106,194			14,244,714	1%
B	20,394,769							4,936,612	25,331,382	2%
B-	12,662,670			796,472		3,251,657		1,594,951	18,305,750	1%
CCC+	15,514,845								15,514,845	1%
CCC	3,683,904		3,947						3,687,852	0%
CCC-									-	0%
CC									-	0%
C									-	0%
D								609,774	609,774	0%
NR	153,740,298		20,792,397	1,659,458	11,342,605	1,269,739		65,358,725	254,163,222	18%
Totals	433,378,164	363,169,349	118,125,656	53,691,446	66,857,035	73,256,891.44	15,447,579	299,511,726	1,423,437,846	100%
Govt & Agencies Explicit*					194,201,389				194,201,389	
Agencies Implicit**					289,274,163				289,274,163	
Total Fixed Income	$ 433,378,164	$ 363,169,349	$ 118,125,656	$ 53,691,446	$ 550,332,587	$ 73,256,891	$ 15,447,579	$ 299,511,726	$ 1,906,913,398	

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government (GNMA) are not considered to have credit risk.

** Implicit Agencies are not a direct U.S. government obligation, although it is considered that the government would not permit a default on a FNMA or FHLMC.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Interest rate risk is controlled through diversification of portfolio management styles. Some investments' sensitivity to changing interest rates may derive from prepayment options embedded in an investment. MERS Retirement Board investment policy in regards to interest rate risk is that the effective duration of the domestic portfolio shall be (+/-) 20% of the Lehman Brothers Aggregate Index or the Lehman Universal Bond Index. MERS Retirement Board investment policy in regards to interest rate risk is that the effective duration of the global fixed income portfolio shall be (+/-) 20% of the Lehman Brothers Global Aggregate Index. Board policy in regards to global non-investment grade fixed income securities is that the portfolio's duration is (+/-) 2 years of the benchmark duration. The benchmark for global non-investment grade fixed income securities is 1/3 Lehman Brothers U.S. Treasury Inflation Protected Securities Index, 1/3 Citigroup High Yield Market Index and 1/3 JP Morgan Emerging Markets Global Bond Index. As of December 31, 2007, the Defined Benefit plan exposure to interest rate risk as measured by the segmented time distribution maturity summary is listed below by investment class.

Segmented Time Distribution – December 31, 2007

Investment Type	Market Value	Less than 1 Year	1 to 6 Years	6 to 10 Years	10+ Years	Maturity not Determined
Asset Backed Securities	$ 53,691,446	$ 454,312	$ 39,021,814	$ 1,476,978	$ 12,738,342	
Corporate Bonds	433,378,164	9,419,413	120,102,852	127,186,155	68,784,159	$ 107,885,586
Foreign Government	73,256,891		6,609,636	17,823,286	48,823,969	
Government Bonds/Agencies	550,332,587	13,534,530	91,813,213	118,200,224	233,412,832	93,371,789
Global Fixed Income	299,511,726	9,606,265	183,246,522	62,823,171	43,356,946	478,821
Mortgages	118,125,656		2,587,285	1,563,423	113,974,948	
Municipal Bonds	15,447,579			8,483,984	6,963,595	
Bond Index*	363,169,349					
Total	**$ 1,906,913,398**	**$ 33,014,520**	**$ 443,381,322**	**$ 337,557,220**	**$ 528,054,792**	**$ 201,736,196**

* The Bond Index information on the segmented time distribution was unavailable. The effective duration in years for the Bond Index was 4.61 years. Effective duration is a measure of the price sensitivity of a debt investment to changes in interest rates. It is calculated based on the weighted average of the present value for all cash flows.

Concentration of Credit Risk Debt Securities

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer. MERS Retirement Board investment policy states securities representing debt and equity of any one company shall not exceed 5% of the fair value of the Plan's portfolio. MERS did not hold a single organization's securities that exceeded 5% of the Plan's net assets available for benefits other than those issued or explicitly guaranteed by the U.S. government as of December 31, 2007.

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MERS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. As of December 31, 2007, MERS had deposits of $11,053,602 that were exposed to credit risk with The Northern Trust that were uninsured and uncollateralized. MERS also had investment securities and other investments of $35,641,711 where the exposure to custodial credit risk was not determined.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. MERS currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency denominated equities, and fixed income investments. MERS Retirement Board investment policy for the global non-investment grade fixed income portfolio allows currency hedging to mitigate currency exposure. Hedging the non-U.S. dollar currency exposure of the portfolio is permitted. The portfolio will be limited to the maximum net currency exposure of 25% at any given time.

MERS exposure to foreign currency risk in U.S. dollars as of December 31, 2007 is summarized below:

Foreign Currency Risk – December 31, 2007

Currency	Equities	Fixed Income	Cash	Total
Australian dollar	$ 56,828,982	$ 32,847,903	$ 284,143	$ 89,961,028
Brazilian real	157,584	12,431,185	46,879	12,635,648
British pound sterling	91,517,748	47,816,801	411,759	139,746,308
Canadian dollar	2,849,574	19,839,159	2,626	22,691,359
Danish krone	5,861,323	32,953,117	9,944	38,824,384
Egyptian Pound		682,194		682,194
Euro	175,500,414	54,165,566	2,548,613	232,214,593
Hong Kong dollar	19,869,332	9,876,334	75,744	29,821,410
Hungarian forint	98,125		35	98,160
Indonesian rupiah	522,509	2,707,996		3,230,505
Japanese yen	108,343,678		1,000,913	109,344,591
Malaysian ringgit	858,054		726	858,780
Mexican peso	635,881	11,391,784	487,148	12,514,813
New Israeli shekel	661,015		4,316	665,331
New Taiwan dollar	2,716,803		2,719	2,719,522
New Zealand dollar	2,924,185	15,919,242	18,969	18,862,396
Norwegian krone	4,154,826	16,715,173		20,869,999
Singapore dollar	15,212,729		39,903	15,252,632
South African rand	346,202		31	346,233
South Korean won	5,554,827	9,778,441	26	15,333,294
Swedish krona	2,312,904	32,386,831	429	34,700,164
Swiss franc	13,760,089		1,700	13,761,789
Thai baht	764,238		5,249	769,487
Turkish lira	739,413			739,413
Total subject to foreign currency risk	512,190,435	299,511,726	4,941,872	816,644,033
Investments in International Securities payable in United States dollars	520,569,293	73,256,891		593,826,184
Total International Investment Securities	**$ 1,032,759,728**	**$ 372,768,617**	**$ 4,941,872**	**$ 1,410,470,217**

Securities Lending

MERS policy authorizes participation in a securities lending program administered by its global custodian, The Northern Trust Company. MERS receives income as the owner of securities, as well as income from the lending of those securities. There are no dividends or coupon payments owing on the securities on loan. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. The securities loans are open contracts and, therefore, could be terminated at anytime by either party.

The borrower collateralizes the loan with either cash or securities of 102% of market value plus accrued interest on domestic securities and 105% of market value plus accrued interest on international securities loaned. Cash open collateral is invested in a short-term investment pool, the Core Collateral Section, which had an average weighted maturity of 22 days as of December 31, 2007. Due to the nature of the program's collateralization of U.S. fixed income securities loans at 102% plus accrued interest, we believe that there is no credit risk per GASB 40 since the lender owes the borrower more than the borrower owes the lender. Cash collateral is invested for MERS in a dedicated short-term investment fund consisting of investment grade fixed income securities. The custodian provides for full indemnification to MERS for any losses that might occur in the event of borrower default resulting from negligence or intentional misconduct. Securities on loan are marked to market daily to ensure the adequacy of the collateral. There are no restrictions on the amount of securities that can be loaned at one time. Neither MERS nor the custodian has the ability to pledge or sell collateral securities delivered unless the borrower is in default.

MERS also invests in three commingled funds that participate in securities lending on a pooled basis.

MERS has never experienced a loss on securities lending transactions resulting from the default of a borrower or lending agent since it commenced lending securities in March 1995. The average number of days that MERS securities were borrowed was approximately 187 days as of December 31, 2007, producing a net income of $3,363,352 in 2007.

Collateral Held and Fair Value of Securities on Loan as of December 31, 2007

Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
$ 693,703	Cash	$ 709,449
-	Non-Cash	-
$ 693,703		**$ 709,449**

Derivatives and Structured Financial Instruments
Derivatives are complex financial instruments that MERS employs to gain exposure to commodities and international currency markets and to invest in the S&P 500.

MERS does not use derivatives for speculation, nor are they used to leverage the investment portfolio. The Retirement System does not use stock options, interest rate caps/floors, or floating rate securities that are priced from underlying collateral. All derivatives are presented at fair value as of December 31, 2007 in the financial statements. Derivative values fluctuate on a daily basis.

In accordance with the Board Investment Guidelines, our international managers may, when deemed prudent, enter into forward foreign currency transactions to hedge currency risk or take advantage of favorable market conditions. As of December 31, 2007, the following forward foreign exchange transactions were in place:

Forward Foreign Exchange Transactions – December 31, 2007

Type	Currency Exchange	Cost	Market Value	Gain/(Loss)
Sell	GBP vs. USD	(16,933,139)	(16,419,373)	513,766
Sell	EUR vs. USD	(2,016,044)	(2,070,855)	(54,811)
Sell	GBP vs. USD	(17,248,791)	(16,783,370)	465,421
Sell	CAD vs. USD	(13,435,000)	(13,559,472)	(124,472)
Buy	JPY vs. AUD	15,732,378	16,116,406	384,028
Sell	USD vs. NZD	(16,330,254)	(16,583,201)	(252,947)
Buy	NZD vs. USD	435,159	426,284	(8,875)
Sell	USD vs. AUD	(17,585,139)	(17,782,370)	(197,231)
Buy	JPY vs. GBP	31,842,459	32,839,981	997,522
Sell	USD vs. EUR	(16,875,000)	(17,013,254)	(138,254)

MERS uses S&P 500 futures contracts to equitize cash allocated to private equity markets that are awaiting investment. A futures contract is an agreement to buy or sell a specific amount of a commodity, currency, or financial instrument at a specified future date. Futures are exchange traded and the exchange assumes the risk of nonperformance by the counterparty. MERS is required to pledge to the broker cash or U.S. government securities (the initial margin) equal to a certain percentage of the contract amount. The fair value of cash collateral was $0 as of December 31, 2007. Subsequent payments, known as “variation margin,” are made or received by MERS each day, depending on the daily fluctuations in the value of the underlying security. Such variation margin is recorded as realized gain or loss in the financial statements. The fair value of the futures contract was $0 as of December 31, 2007. MERS was transitioning to a new custodial bank at year end and had closed out all futures contracts.

5. Commitments and Contingencies

In the normal course of business, benefit claims by members or employers are in various stages of determination through established administrative procedures with the Retirement Board making the final decision, which may be subject to judicial review thereafter. MERS does not anticipate any material loss as a result of these claims. Furthermore, the cost of successful benefit claims is ultimately the responsibility of the affected municipality and becomes its funding obligation. MERS maintains insurance for Workers Compensation, owned and leased vehicles, blanket property, fiduciary, fidelity, and faithful performance to cover other risk of loss such as personal injury to employees or others, property damage, or other liability.

6. Defined Contribution Plan

Plan Description

MERS Defined Contribution plan became operative July 8, 1997, under Section 401(a) of the Internal Revenue Code. It is on this date that the MERS Plan Document of 1996 was first determined by the Internal Revenue Service Letter of Favorable Determination to meet qualifications as a "governmental plan" trust under Code Section 401(a), and tax exempt under Section 501(a). MERS has contracted with International City/County Management Association - Retirement Corporation (ICMA-RC) to serve as the third-party administrator for the plan. The plan is available to all MERS participating municipalities and may be adopted on a division-by-division basis. Plan provisions and requirements are specified in the MERS Plan Document.

Contributions to the Defined Contribution plan are remitted directly to ICMA-RC by the participating municipalities and are separate from contributions made to the MERS Defined Benefit plan. Both employer contributions and employee voluntary contributions are governed by the percentages allowable under the Internal Revenue Code. Employees electing to be in the Defined Contribution plan may not change their contribution as a percent of payroll after enrollment. Participating municipalities may upon adoption of a Defined Contribution resolution for new hires, offer current Defined Benefit plan employees an opportunity to opt into the Defined Contribution plan. MERS then transfers the actuarial present value of the employee's accrued benefit in the Defined Benefit plan into the employee's account in the Defined Contribution plan (at a stipulated funded ratio that shall not exceed 100%). Employees direct their contributions to various investment options offered by ICMA-RC and may transfer their account balances between investment categories or make changes to the percentage allocation on a daily basis. As of December 31, 2007, there were 146 plans that had adopted the Defined Contribution plan with 7,443 member accounts totaling $230.6 million.

The MERS Defined Contribution plan with ICMA-RC offers a variety of investment opportunities, including the MERS Total Market Fund, (the same diversified fund utilized for its Defined Benefit portfolio) for the Defined Contribution plan participants. In addition, there are other funds offered from selected mutual fund families including the Vantage Trust Funds, which include nine actively managed funds, five index funds, and five model portfolio funds. The Mutual Fund Series includes 14 segregated accounts, each with a different investment strategy.

Significant Accounting Policies
The Defined Contribution plan financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Plan participants select from 35 investment options.

Reserve for Defined Contribution Plan
All additions to and deductions from the Defined Contribution plan are recorded in this reserve. ICMA-RC maintains the individual employee account records.

7. MERS Health Trust Programs

On January 13, 2004, MERS received a Private Letter Ruling allowing establishment of an Internal Revenue Code Section 115 "Integral Governmental Trust." MERS created two programs from this Trust, the Health Care Savings Program and the Retiree Health Funding Vehicle.

A. Health Care Savings Program
Plan Description
The MERS Health Care Savings Program is available to all municipalities in Michigan and became operational in June of 2004. The employer sponsored program provides medical reimbursement accounts to the participating employees for reimbursement of their medical expenses, as defined in Code Section 213, once they terminate employment, are on medical leave for six months or longer, or are on disability from any public pension plan. There are four types of contributions that may be used in the program: 1. Basic Employer (tax-favored), 2. Mandatory Salary Reductions (tax-favored), 3. Mandatory Leave Conversions (tax-favored), and 4. Voluntary Employee Contributions (post-tax). As a result of the Private Letter Ruling, Code Section 213, reimbursements are tax-exempt for the employee, their spouse, and/or Code Section 152 dependent(s). The Health Care Savings Program accounts are invested in the MERS Total Market Fund portfolio and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Significant Accounting Policies
The Health Care Savings Program financial statements are prepared using a modified cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Contributions are pooled on a commingled basis subject to the Public Employee Retirement System Investment Act ("PERSIA"), 1965 PA 314, and pursuant to the Public Employee Health Care Fund Investment Act, 1999 PA 149.

Reserve for Health Care Savings Program
All additions to and deductions from the Health Care Savings Program are recorded in this reserve. MERS maintains the separate individual member account records.

B. Retiree Health Funding Vehicle

Plan Description

The MERS Retiree Health Funding Vehicle is available to all municipalities in Michigan and became operational in the fall of 2004. Participating municipalities can contribute monies to the Trust and no contribution method other than "pay as you go" cash funding is required or imposed on the participating employer. These funds constitute a health care fund, which enable municipalities to accumulate funds to provide or subsidize health benefits for retirees and beneficiaries as defined by Code Section 213. The Retiree Health Funding Vehicle accounts are invested in the MERS Total Market Fund portfolio and earnings are tax exempt as a result of the MERS Private Letter Ruling. Plan provisions and requirements are specified in the MERS Health Care Savings Program and Retiree Health Funding Vehicle Plan Document and Trust.

Significant Accounting Policies

The Retiree Health Funding Vehicle financial statements are prepared using a modified cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Contributions are pooled on a commingled basis subject to 1965 PA 314, and 1999 PA 149.

Reserve for Retiree Health Funding Vehicle

All additions to and deductions from the Retiree Health Funding Vehicle are recorded in this reserve. MERS maintains the separate municipality employer account records.

8. Investment Services Program

Plan Description

The Investment Services Program (ISP) is an investment trust fund that is available to all municipalities to invest funds through the MERS portfolio while maintaining administrative functions at the municipal level. Assets are pooled with the existing $6 billion currently in MERS fund, resulting in reduced costs and increased investment return opportunities for municipalities. The program was established by MERS Board in March 2006 and began operations in June of 2006. MERS offers to any "municipality" (Plan Section 2b(4); MCL 38.1502B(2) pension, "ancillary benefits, health and welfare benefits, and other post employment benefit programs" (Plan Section 36(2)(a); MCL 38.1536(2)(a)). The Investment Services Program trust fund complies with all the requirements imposed by the Public Employee Retirement System Investment Act, 1965 Public Act 314. Participation in the Investment Services Program does not qualify as membership in MERS pension plans, and the participating employer is not able to vote at the MERS Annual Meeting.

Significant Accounting Policies

The Investment Services Program financial statements are prepared using a modified cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value. Contributions are pooled on a commingled basis subject to 1965 PA 314.

Reserve for Investment Services Program

All additions to and deductions from the Investment Services Program are recorded in this reserve. MERS maintains the separate municipality employer account records.

9. Interfund Receivables and Payables

The Defined Benefit Plan, Retiree Health Funding Vehicle, Investment Services Program, and the Health Care Savings Program are separate trusts with their own general ledgers and financial statements. Interfund receivables and payables have been created as an avenue for the Defined Benefit Plan to handle all transactions for the various funds.

As of December 31, 2007, interfund receivables and payables were as follows:

Interfund Receivables and Payables – December 31, 2007

	Interfund Receivables	Interfund Payables
Defined Benefit Plan	$ 941,456	
Health Care Savings Program		690,170
Investment Services Program		74,507
Retiree Health Funding Vehicle		176,779
Totals	**$ 941,456**	**$ 941,456**

Required Supplementary Information

Schedule of Funding Progress (Dollars in Millions)

Actuarial Valuation December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2000	$ 3,787.2	$ 4,397.0	$ 609.8	86.10%	$ 1,226.0	49.7%
2001	4,034.4	4,783.9	749.5	84.30	1,271.6	58.9
2002	4,133.0	5,181.2	1,048.2	79.80	1,327.4	79.0
2003	4,459.5	5,667.7	1,208.2	78.70	1,381.2	87.5
2004	4,731.4	6,164.8	1,433.4	76.70	1,437.2	99.7
2005	5,026.1	6,609.1	1,583.0	76.05	1,462.4	108.2
2006	5,493.7	7,187.7	1,694.0	76.43	1,545.9	109.6

Schedule of Employer Contributions (Dollars in Millions)

Fiscal Year*	Annual Required Contribution	Accelerated Funding Credit	Percentage Contributed Before Credit	Percentage Contributed After Credit
2002	$ 125	$ 8	102%	109%
2003	133	5	121	125
2004	156	2	108	109
2005	170	-	108	108
2006	199	-	107	107
2007	258	-	92	92

* See Note 1 in the Notes to the Schedules of Required Supplementary Information on the following page.

Notes to the Schedules of Required Supplementary Information

1. Actuarial Valuation - Actuarial Valuations are prepared annually as of December 31 for each participating municipality. To facilitate budgetary planning needs, employer contribution requirements are provided for each municipality's unique fiscal year that commences after the following calendar year end. For example, the contribution requirements for fiscal years that began in 2007 were determined by Actuarial Valuations as of December 31, 2005.

   Approximately 78% of the participating municipalities have fiscal years that begin January 1 or July 1.

   The annual required contribution and accelerated funding credit shown in the preceding schedule represent the summation of each participating municipality's contribution requirements for its fiscal year commencing in the year stated. However, the calculations to determine the percentage contributed use contributions recorded during MERS fiscal year.

2. Accelerated Funding Credits - An Accelerated Funding Credits (AFC) program was first established by the Retirement Board in 1984, and has been modified several times. The program reduced required contribution rates of municipalities with funded percentages in excess of 100%. The program was discontinued beginning with the fiscal year 2005 but is useful for the reader for the Schedule of Employer Contributions.

3. Summary of Actuarial Methods and Assumptions - The information presented in the required supplementary schedules was determined as part of the Actuarial Valuation at the dates indicated. Additional information as of the latest actuarial valuation may be found in the Actuarial Section.

Summary Information as follows:

Valuation Date	December 31, 2006
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	29 years for positive unfunded liabilities and 10 years for negative unfunded liabilities. The 29-year period will decline by one year in each of the next four annual valuations. For divisions that are closed to new hires, the amortization period for positive unfunded liabilities is decreased annually by 2 years until the period reaches 5 years.

Asset Valuation Method	10-Year Smoothed Market Asset Valuation Method was adopted December 31, 2005 with prospective application. Prior to 2006, a five year smoothed method was used. (For 2003, the Retirement Board adopted a one-time ad hoc adjustment to aggregate the yet unrecognized market gains and losses from 1999-2002 with the 2003 market gain. No gain or loss was recognized for 2003. The aggregate loss amount of $388,778,035 was recognized in four equal dollar installments in 2004-2007.)

Actuarial Assumptions

Investment Rate of Return	8%
Projected Salary Increases	4.5% for base inflation, plus 0.0% to 8.4% per year attributable to merit and longevity.
Post Retirement Benefit	2.5% annual post retirement benefit adjustments if adopted by individual municipality.

Schedule of Administrative Expenses for the Year Ended December 31, 2007

Administrative Expenses		
Personnel Services		
Salaries	$	5,094,628
Social Security		369,320
Retirement		635,902
Insurance		860,117
Total Personnel Services		6,959,967
Professional Services		
Actuarial Services		899,922
Audit Services		60,000
Commercial Banking		91,839
Computer Maintenance		22,252
Consultants		65,519
Legal Services		122,515
Medical Services		56,052
Third Party Administrators		80,297
Total Professional Services		1,398,396
Communication		
Advertising		6,306
Annual Meeting		242,777
Library and Records Storage		84,124
Postage / Shipping		137,966
Printing and Copying Services		112,858
Promotional Supplies		17,328
Telephone / Communications		122,293
Travel and Meetings*		332,168
Total Communication		1,055,820
Rentals		
Equipment Rental		121,869
Office Rental		704,500
Total Rentals		826,369
Miscellaneous		
Depreciation		1,654,509
Equipment Purchases		146,816
Insurance		237,161
Maintenance		322,690
Office Supplies		100,327
Operating Expenses		912,902
Payroll Processing		13,474
Professional Development & Tuition		496,613
Software Purchases and Maintenance		690,285
Service Fees		(407,207)
Total Miscellaneous		4,167,570
Total Administrative Expenses	**$**	**14,408,122**

* MERS Board members serve without compensation and are only reimbursed for their travel expenses.

Schedule of Investment Expenses for the Year Ended December 31, 2007

Investment Expenses		
Personnel Services		
Salaries	$	603,156
Social Security		39,086
Retirement		71,889
Insurance		72,261
Total Personnel Services		786,392
Professional Services		
Commercial Banking		542,660
Investment Managers		19,543,961
Investment Performance		79,500
Other Consultants		27,250
Total Professional Services		20,193,371
Communication		
Travel		47,143
Total Communication		47,143
Miscellaneous		
Depreciation		20,340
Operating Expenses		3,040
Software Purchases/Maintenance		218,193
Total Miscellaneous		241,573
Total Investment Expenses	**$**	**21,268,479**

Schedule of Payments to Consultants for the Year Ended December 31, 2007

Firm	Nature of Service		Amount
Gabriel, Roeder, Smith & Company	Actuary and System Implementation	$	1,567,589
Robbins-Gioia, LLC	FileNet System Implementation		655,120
Oracle (PeopleSoft) Corporation	System Implementation and Maintenance		491,923
Ice Miller	Legal Counsel		77,003
Logicallis	Server Hardware Maintenance		64,750
Andrews Hooper & Pavlick P.L.C.	Auditor		59,600
SunGard Availabilty Services	Disaster Recovery		57,980
Innovative Communications	Video/Audio Systems		56,356
Consulting Physicians, PC	Medical Advisors		55,425
New London Management	Human Resource and Career Advisors		51,955
CEM Benchmarking, Inc.	Benchmark Data Production		35,000
Karoub Associates	Legislative Advisors		30,000
Service Express	Hardware Maintenance		29,049
IRSS	Investment Class Action Monitor Service		25,000
Matt Wesaw	Tribal Government Consultant		19,500
Zephyr Associates	eVestment Analytics System		19,500
Total Payments to Consultants		**$**	**3,295,750**

Note: Fees paid to investment managers are included in the Investment Section.