“I really feel like I have a security blanket waiting for me when the time comes when I’m able to retire. I always feel like I don’t have to worry. I know MERS is going to be there.

I am MERS because I have a secure future.”

Akemi Gordon

financial section

Akemi Gordon is a Finance Director, UP Transportation Authority.

She’s been a MERS member since 2000.

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Independent Auditor's Report

AHP
CPAs & ADVISORS

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Independent Auditor's Report

Municipal Employees' Retirement System of Michigan Retirement Board:

We have audited the accompanying statement of plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2011, and the related statement 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 2010 financial statements and, in our report dated June 29, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Employees' Retirement System of Michigan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Municipal Employees' Retirement System of Michigan as of December 31, 2011, and the changes in plan net assets 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 29, 2012, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statements include summarized prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2010, from which summarized information was derived.

AUBURN HILLS | BAY CITY | GRAND RAPIDS | GREATER LANSING | MIDLAND | SAGINAW
Andrews Hooper Pavlik PLC is a member of PKF North America, an association of legally independent firms.

Independent Auditor's Report

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule of Administrative Expenses, Schedule of Investment Expenses, and the Schedule of Payments to Consultants and Services are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory, Investment, Actuarial and Statistical sections 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 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 do not express an opinion or provide any assurance on them.

Andrews Hooper Pavlik PLC

Okemos, Michigan
June 29, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of MERS financial condition for fiscal year ended December 31, 2011, is presented in conjunction with the Interim 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.

Due to the long-term nature of the Defined Benefit Plan, financial statements alone cannot provide sufficient information to reflect the System's ongoing plan perspective. This financial report consists of two financial statements, and two required schedules of historical trend information.

Basic Financial Statements

1. Statement of Plan Net Assets.
2. Statement of Changes in Plan Net Assets.
3. Notes to Basic Financial Statement.

The "Statement of Plan Net Assets" and "Statement of Changes in Plan Net Assets" provide the current financial condition of the MERS Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, and the Investment Services Program. The Hybrid Plan is included in the Defined Benefit and Defined Contribution totals.

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

Required Supplemental Information

1. Schedule of Funding Progress.
2. Schedule of Employer Contributions.
3. Notes to the Schedules of Required Supplementary Information.

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.

Supplementary Expense Schedules

1. Schedule of Administrative Expenses.
2. Schedule of Investment Expenses.
3. Schedule of Payments to Consultants.

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, 2011:

- Total net assets for the Defined Benefit Plan, Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle and Investment Services Program increased by $29 million during the 2011 fiscal year. MERS finished the year with $6.6 billion in net assets, slightly higher than the previous year.
- MERS actuarial funded ratio declined somewhat for the 2010 valuations primarily due to recognition of investment losses from 2008. The 2010 actuarial valuation has MERS funded at 74.5% compared with a funding ratio of 75.5% with the 2009 valuation.
- Total retirement benefits paid to retirees and beneficiaries increased $54 million to a total of $518 million. This is due to an aging population and an increase in retirements. This is not a cause of concern as it is built into the actuarial projections.
- Administrative expenses increased 16% in 2011 to $25 million. Most of this increase was due to reporting administrative expenses for the Defined Contribution, Retiree Health Funding Vehicle and the Health Care Savings Program, that had previously been difficult to report due to being combined with investment returns.

  Additional staff to handle the increased number of retirees, and an increase in legal services, computer consultants, and software maintenance also contributed to the administrative expense increase.
- Investment expenses totaled $19 million. This is a slight decrease from 2010 primarily due to lower investment manager fees.

Comparison Statement of Plan Net Assets

	As of Dec. 31, 2011	As of Dec. 31, 2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Assets				
Cash and Short-Term Investments	$104,657,607	$43,807,281	$60,850,326	138.90%
Receivables	346,321,828	292,252,201	54,069,627	18.50
Interfund Receivables	276,317	-	276,317	100.00
Loans	3,815,831	3,281,585	534,246	16.28
Investments, at fair value	6,533,652,171	6,509,674,895	23,977,276	0.37
Invested Securities Lending Collateral	771,417,923	965,406,902	(193,988,979)	-20.09
Other Assets/Prepaids	66,004	173,239	(107,235)	-61.90
Net Capital Assets	7,300,506	6,346,492	954,014	15.03
Total Assets	**7,767,508,187**	**7,820,942,592**	**(53,434,405)**	**-0.68**
Liabilities				
Purchase of Investments	370,788,064	252,618,509	118,169,555	46.78
Securities Lending Collateral	776,695,757	972,419,765	(195,724,008)	-20.13
Administrative and Investment Costs	6,239,634	11,661,471	(5,421,837)	-46.49
Interfund Payables	276,317	-	276,317	100.00
Other Accounts Payable	10,621	94,565	(83,944)	-88.77
Total Liabilities	**1,154,010,393**	**1,236,794,310**	**(82,783,917)**	**-6.69**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	**$6,613,497,794**	**$6,584,148,282**	**$29,349,512**	**0.45%**

Comparison Statement of Changes in Plan Net Assets

	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions				
Contributions	$451,389,816	$519,556,971	$(68,167,155)	-13.12%
Transfers from Defined Benefit Plan	133,792	1,005,605	(871,813)	-86.70
Transfers from Other Plans and Other Items		3,696,142	(3,696,142)	100.00
Investment Net Income Investing Activities	136,531,099	812,538,191	(676,007,092)	-83.20
Investment Net Income-Securities Lending	2,900,411	3,294,781	(394,370)	-11.97
Miscellaneous Income	446,219	1,726,190	(1,279,971)	-74.15
Total Additions	**591,401,337**	**1,341,817,880**	**(750,416,543)**	**-55.93**
Deductions				
Benefits	517,664,569	464,089,382	53,575,187	11.54
Refunds of Contributions	7,956,336	7,011,682	944,654	13.47
Special Expenses and Fees	444,000	1,648,860	(1,204,860)	-73.07
Transfers to Defined Contribution Plan	133,792	1,005,605	(871,813)	-86.70
Medical Disbursements Paid to Members	1,473,832	889,941	583,891	65.61
Disbursements Paid to Municipalities	9,073,910	5,564,350	3,509,560	63.07
Forfeited Employer Contributions	16,106	85,142	(69,036)	-81.08
Administrative Expense	25,289,280	21,773,212	3,516,068	16.15
Total Deductions	**562,051,825**	**502,068,174**	**59,983,651**	**11.95**
Net Increase (Decrease)	29,349,512	839,749,706	(810,400,194)	-96.50
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others				
Balance Beginning of Year	6,584,148,282	5,744,398,576	839,749,706	14.62
Balance End of Year	**$6,613,497,794**	**$6,584,148,282**	**$29,349,512**	**0.45%**

Analysis of Plan Net Assets

Combined plan net assets increased by $29 million over the previous fiscal year. Looking at additions to and deductions from plan net assets, the increase was primarily due to net investment gains of $139 million. The Health Care Savings Program saw a 12% increase in net assets from the previous year due to new groups joining the program. The Retiree Health Funding Vehicle also saw an increase in net assets of 17% compared to the previous year.

The employer and employee contributions declined by $73 million in 2011. Some municipalities also had fluctuations due to changes in required actuarial contribution rates resulting from salary adjustments, plan modifications, and the number of employees.

Total employer contributions declined by 12% due to less employer contributions coming in from new groups joining MERS. Employee contributions decreased by 19% down to $75 million from the previous year. Regular employee contributions are increasing as a percentage of pay relative to employer contributions.

MERS had capital assets, net of accumulated depreciation, of approximately $7 million, mostly comprised of software and computer servers needed to run the System's pension administration and financial programs. MERS has no long-term liabilities. The bulk of MERS liabilities at year-end are related to investment purchases that did not settle until early in 2012, accrued administrative and investment expenses, and securities' lending collateral.

Investment Activities

The performance of the Total Market Fund was favorable when compared to the benchmarks. The gross return of 2.30% was below the 8% actuarial return assumption target for the year. For both the five- and ten-year periods, the gross returns were 2.32% and 5.98% respectively, which compared unfavorably to the actuarial return assumption. Net investment gains (net appreciation in fair value, less investment administrative expenses, plus securities lending income) were $139 million for the year. A further detailed analysis of investment returns is in the Investments Section.

MERS investments are managed to control the extent of downside risk that assets are exposed to while maximizing long-term gain potential. This positions the 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 System. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the System's participants and beneficiaries 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 on 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 MERS as of December 31, 2011, is in the Investments Section. A summary of the total System's assets is on page 65.

Historical Trends

Accounting standards require 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 in the "Schedule of Funding Progress." The asset value stated in the "Schedule of Funding Progress" is the actuarial value of assets determined by calculating the ratio of market value to book value over a 10-year period. The overall funded ratio decreased slightly from 75.5% to 74.5% for the 2010 valuation mostly attributable to investment experience. The actuarial assumptions used in the most recent valuation are identified in the "Notes to the Schedules of Required Supplementary Information."

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

MERS overall financial condition slightly improved in 2011 due to market gains. The Plan continues to remain stable and viable for the years to come. Public pension plans use long-term investment strategies to fund future benefit obligations. The market downturns and upturns are historically considered part of the market cycle 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 that a retirement system has achieved progress 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 in the Required Supplementary Information.

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

- Develop level required contribution rates as a percentage of payroll
- Finance benefits earned by present employees on a current basis along with paying the current portion of the unfunded accrued liability
- Accumulate assets to enhance benefit security
- Produce investment earnings and interest on accumulated assets to help meet future benefit costs
- Estimate the long-term actuarial cost of proposed amendments for the System's provisions
- Assist in maintaining the 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 percentage of member payroll. A detailed discussion of the funding method is in the Actuarial Section.

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, 2011

	Defined Benefit	Defined Contribution	Health Care Savings Program
Assets			
Cash and Short-Term Investments	$97,673,461	$1,252,961	$910,313
Receivables			
Employer and Member Contributions	36,181,134		
Sale of Investments	274,020,465	3,436,365	2,681,847
Investment Income	14,720,764		
Loans		3,815,831	
Interfund Receivables	276,317		
Other	140,763	16,351	
Total Receivables	325,339,444	7,268,548	2,681,847
Investments, at fair value			
Fixed Income	1,993,903,226	23,744,311	18,530,806
Equities	2,521,701,140	30,029,570	23,436,019
Private Equity	586,442,126	6,983,621	5,450,237
Commodities	293,221,063	3,491,810	2,725,119
Cash Equivalents	117,288,425	1,396,724	1,090,047
Mutual Funds		237,529,028	
Real Estate	351,865,275	4,190,173	3,270,142
Total Investments	5,864,421,255	307,365,237	54,502,370
Invested Securities Lending Collateral	771,417,923		
Prepaid Expenses	66,004		
Capital Assets, at cost, net of accumulated depreciation	7,300,506		
Total Assets	**7,066,218,592**	**315,886,745**	**58,094,530**
Liabilities			
Purchase of Investments	345,378,942	4,110,422	3,207,902
Securities Lending Collateral	776,695,757		
Administrative and Investment Costs	6,239,634		
Interfund Payables		262,514	13,803
Other Accounts Payable		10,621	
Total Liabilities	**1,128,314,333**	**4,383,557**	**3,221,705**
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others	**$5,937,904,259**	**$311,503,188**	**$54,872,825**

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.

Retiree Health Funding Vehicle	Investment Services Program	Total Year Ended Dec. 31, 2011	Total Year Ended Dec. 31, 2010
$4,713,250	$107,622	$104,657,607	$43,807,281
		36,181,134	35,510,409
14,789,552	334,587	295,262,816	243,973,829
		14,720,764	12,444,670
		3,815,831	3,281,585
		276,317	-
		157,114	323,293
14,789,552	334,587	350,413,976	295,533,786
102,191,618	2,311,906	2,140,681,867	2,066,121,447
129,242,342	2,923,881	2,707,332,952	2,816,719,619
30,056,359	679,972	629,612,315	627,717,674
15,028,179	339,986	314,806,157	342,482,098
6,011,272	135,995	125,922,463	181,799,909
		237,529,028	156,013,743
18,033,814	407,984	377,767,388	318,820,405
300,563,585	6,799,724	6,533,652,171	6,509,674,895
		771,417,923	965,406,902
		66,004	173,239
		7,300,506	6,346,492
320,066,387	**7,241,933**	**7,767,508,187**	**7,820,942,592**
17,690,580	400,218	370,788,064	252,618,509
		776,695,757	972,419,765
		6,239,634	11,661,471
		276,317	-
		10,621	94,565
17,690,580	**400,218**	**1,154,010,393**	**1,236,794,310**
$302,375,807	**$6,841,715**	**$6,613,497,794**	**$6,584,148,282**

Statement of Changes in Plan Net Assets for the Year Ended December 31, 2011

	Defined Benefit	Defined Contribution	Health Care Savings Program
Additions			
Contributions and Transfers In			
Employer Contributions and Other	$298,328,514	$21,953,373	$7,306,567
Plan Member Contributions	64,789,695	10,368,042	
Employer Transfers In		8,313	
Plan Member Transfers In		125,479	
Transfers from Other Plans and Other Items			
Total Contributions and Transfers In	363,118,209	32,455,207	7,306,567
Investment Income			
Net Appreciation/Depreciation in Fair Value	54,567,106	1,862,434	918,372
Interest Income	53,475,487		
Dividend Income	37,890,141		
	145,932,734	1,862,434	918,372
Less Investment Expense	19,164,458		
Net Investment Income Before Securities Lending Activities	126,768,276	1,862,434	918,372
Security Lending Activities			
Security Lending Income	4,151,343		
Security Lending Expenses			
Borrower Rebates	526,431		
Management Fees	724,501		
Total Securities Lending Expenses	1,250,932		
Net Income from Security Lending Activities	2,900,411		
Total Net Investment Income	129,668,687	1,862,434	918,372
Miscellaneous Income	446,219		
Total Additions	**493,233,115**	**34,317,641**	**8,224,939**
Deductions			
Benefits	497,763,955	19,900,614	
Refunds of Contributions			
Employer	41,554		
Plan Member	7,914,782		
Special Expenses and Fees	444,000		
Transfers to Defined Contribution Plan			
Employer	125,479		
Plan Member	8,313		
Medical Disbursements Paid to Members			1,473,832
Disbursements Paid to Municipalities			
Forfeited Employer Contributions			16,106
Administrative Expenses	22,069,613	826,538	717,472
Total Deductions	**528,367,696**	**20,727,152**	**2,207,410**
Net Assets			
Net Increase/Decrease	(35,134,581)	13,590,489	6,017,529
Net Assets Held in Trust for Pension and Health Benefits and Investment Accounts Held for Others Balance Beginning of Fiscal Period	5,973,038,840	297,912,699	48,855,296
Balance End of Fiscal Period	**$5,937,904,259**	**$311,503,188**	**$54,872,825**

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

Retiree Health Funding Vehicle	Investment Services Program	Total Year Ended Dec. 31, 2011	Total Year Ended Dec. 31, 2010
$48,643,625		$376,357,558	$427,317,925
		75,166,050	92,239,046
		-	977,346
		-	28,259
			3,696,142
48,643,625		451,523,608	524,258,718
6,820,323	$161,694	64,329,929	731,551,195
		53,475,487	60,043,753
		37,890,141	41,036,649
6,820,323	161,694	155,695,557	832,631,597
		19,164,458	20,093,406
6,820,323	161,694	136,531,099	812,538,191
		4,151,343	5,545,534
		526,431	1,427,296
		724,501	823,457
		1,250,932	2,250,753
		2,900,411	3,294,781
6,820,323	161,694	139,431,510	815,832,972
		446,219	1,726,190
55,463,948	**161,694**	**591,401,337**	**1,341,817,880**
		517,664,569	464,089,382
		41,554	5,823
		7,914,782	7,005,859
		444,000	1,648,860
		125,479	977,346
		8,313	28,259
		1,473,832	889,941
9,073,910		9,073,910	5,564,350
		16,106	85,142
1,647,556	28,101	25,289,280	21,773,212
10,721,466	**28,101**	**562,051,825**	**502,068,174**
44,742,482	133,593	29,349,512	839,749,706
257,633,325	6,708,122	6,584,148,282	5,744,398,576
$302,375,807	**$6,841,715**	**$6,613,497,794**	**$6,584,148,282**

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended December 31, 2011

1. Reporting Entity and Plan Description

The Municipal Employees' Retirement System (MERS) of Michigan is an agent multiple-employer, statewide public employee pension plan that has helped provide retirement plans for municipal employees for more than 65 years. MERS was established by the Michigan Legislature under Public Act 135 of 1945 to provide pooled retirement plans specifically for Michigan municipalities on a voluntary basis.

On August 15, 1996, pursuant to 1996 PA 220, MERS became independent from the State of Michigan. Prior to that time, MERS was a component unit of the State and operated within the Department of Management and Budget. Since 1996, MERS is solely administered by a nine-member Retirement Board. It consists 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, appointed by the Retirement Board, who have knowledge or experience in retirement systems, administration of retirement systems, investment management or advisory services.
- One member, a retiree of the System, is appointed by the Retirement Board.
- Three members of the System, officers of a participating municipality or of a participating court, who are elected as officer Board members by the delegates at the MERS Annual Meeting.
- Three employee members of the System, who are not officers of a participating municipality or of a participating court, who are elected as employee Board members by the delegates at the MERS Annual Meeting.

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 System for their actual and necessary expenses incurred in the performance of their duties.

Overview of Programs and Services

The MERS Defined Benefit Plan is a traditional pension plan that rewards longevity by providing employees a lifetime retirement benefit. At retirement, members receive a specific monthly benefit calculated using a predetermined formula based on salary and length of service. Groups benefit from professionally managed funds and economies of scale, while maintaining local control of their pension administration choices.

The MERS Defined Contribution Plan is a qualified retirement plan under Section 401(a) of the Internal Revenue Code. Each participant has an account to which contributions are made and invested. Benefits are based on the amount of money in the account. As a qualified plan, participants are not taxed on contributions or earnings until assets are withdrawn.

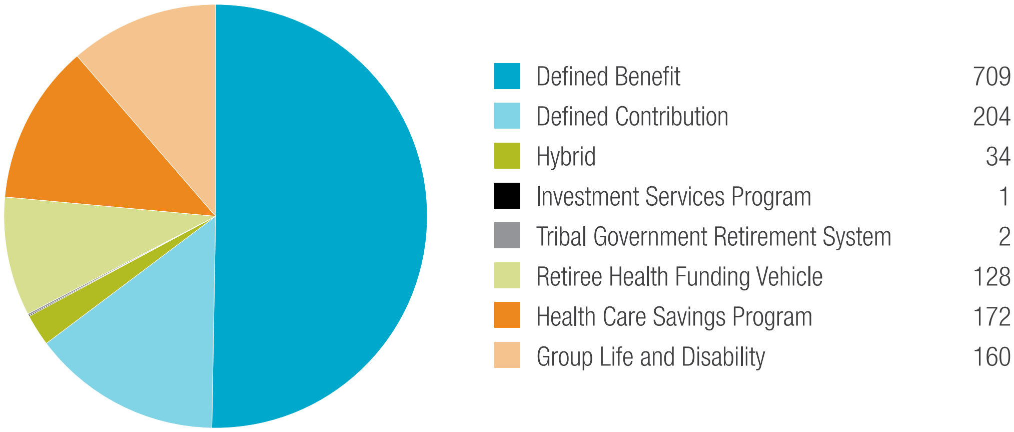
The MERS Hybrid Plan is a combination of a fixed defined benefit portion with a flexible defined contribution portion. Hybrid shares the rewards of both plans while maintaining predictable costs. Hybrid offers participants the flexibility of investment choice, while also providing stability of a specific monthly benefit.

The MERS Health Care Savings Program is an established employer-sponsored program that provides individual medical reimbursement accounts to participating employees. Once an employee leaves employment, the account balance is available for tax-favored reimbursement of medical expenses for the employee and eligible dependents. The program can be used in addition to an existing retiree health care plan, or on its own. This is an IRS issued Private Letter Ruling and an Integral Governmental Trust under Code Section 115.

The MERS Retiree Health Funding Vehicle allows employers to save and grow assets to offset their retiree health care liability. Participating employers join an IRS issued Private Letter Ruling and an Integral Governmental Trust under Code Section 115.

MERS Investment Services Program 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 within the MERS Defined Benefit Plan, resulting in reduced costs and increased investment return opportunities for municipalities.

MERS Participating Municipalities as of December 31, 2011



Note: There are 789 different municipalities that make up the 1,410 programs, as many municipalities have more than one product.

Any "municipality" (a term 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 retirement plan coverage are available to bargaining units after approval by a majority vote of the municipality's governing body.

MERS Membership as of December 31, 2011

	Defined Benefit	Defined Contribution	Hybrid	Health Care Savings Program
Active	35,136	7,176	333	5,852
Deferred	7,568	NA	15	NA
Retired	31,409	2,017	4	1,160
Product Totals	**74,113**	**9,193**	**352**	**7,012**
Total MERS Employment*				90,670

* *Total Employment represents the total number of accounts within MERS, individuals may be represented multiple times across categories.*

MERS was created under Public Act 135 of 1945 as a Defined Benefit Plan repealed and replaced by successor Municipal Employees' Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, embodied in 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 Retirement Board establishes the benefit plans and provisions that are available for adoption. The local municipality's governing body adopts all benefits of the plan. The various plans are discussed in the Actuarial Section. 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."

Employee contribution rates vary depending on the benefit plan adopted by the local government. 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 Internal Revenue Service issued the most recent Letter of Favorable Determination for MERS on June 15, 2005. MERS also applied for an updated application for a Letter of Favorable Determination on September 30, 2008, following Board approval at the September Board meeting. This updated application is part of the Internal Revenue Service's Cycle C program for governmental plan Letters of Favorable Determination. (Please see Note #7 under Subsequent Events.)

The benefits of tax-qualified status include the preferential deferred 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).

The IRC Section 401(a)(17) limits the amount of compensation an active employee can receive for pension benefit calculation purposes and, correspondingly, limits the amount of employer and employee contributions. Compensation in excess of the 401(a)(17) limit ($245,000 for 2011 and $250,000 for 2012) will not be credited by MERS. Contributions in excess of the Internal Revenue Service 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 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. The 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.

The MERS Defined Contribution Plan became operative July 8, 1997, under Section

401(a) of the Internal Revenue Code. On this date, 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 a third party administrator for recordkeeping and administrative functions. 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. MERS Defined Contribution Plan provides employees with an account they manage. At retirement, benefits are based solely on the amount contributed by the employee and employer, and the performance of investments. The plan has several strategic investment categories designed to help employees meet their retirement goals. All participants have access to MERS streamlined investment menu that allows for simple and strategic investing.

The MERS Hybrid Plan is an option for members that includes both a defined benefit and a defined contribution component. The defined benefit component (Part I) is employer funded, with benefit multipliers of 1.0, 1.25, and 1.5%. The defined contribution component (Part II) is a combination of employer and employee contributions that are invested in mutual funds selected by the individual participant.

When MERS received a Private Letter Ruling allowing the establishment of an Internal Revenue Code Section 115 Integral Governmental Trust, MERS created two programs – the Health Care Savings Program, and the Retiree Health Funding Vehicle.

The MERS Health Care Savings Program became operational in June 2004 and was made available to all municipalities in Michigan. The employer-sponsored program provides medical reimbursement accounts to participating employees. Medical expenses are reimbursed, as defined in Code Section 213, once employees 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 Investment Menu, 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.

The MERS Retiree Health Funding Vehicle became operational in the fall of 2004 and was made available to all municipalities in Michigan. 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 monies 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 Core Investment Options 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.

The Investment Services Program 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. The program was established by the MERS Board in March 2006 and began operations in June 2006.

MERS offers 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 does not have a vote at the MERS Annual Meeting.

2. Summary of Significant Accounting Policies

Reporting Entity

The Retirement Board is responsible for the 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 System under the supervision and direction of the Board.

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

Cost Allocation

The costs of administering the MERS Defined Benefit Plan are allocated to the municipalities along with investment gains and losses on a quarterly basis. The funding and accounting for each municipality is separate. The liabilities of each member municipality remain with that municipality, and the assets of one municipality cannot be used to pay the liabilities of another municipality. Additionally, the assets are combined for investment and administrative purposes, but maintained separately for accounting purposes.

The costs of administering the MERS Defined Contribution Plan, Health Care Savings Program, Retiree Health Funding Vehicle, and Investment Services Program are allocated out to the municipalities and members based on an administrative expense percentage for each municipality and member.

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.

The Defined Contribution financial statements are prepared using a cash basis of accounting (which approximates the accrual basis of accounting). Plan investments are presented at fair value.

The Health Care Savings Program's 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 combined 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.

The Retiree Health Funding Vehicle's 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 combined basis subject to 1965 PA 314, and 1999 PA 149.

The Investment Services Program's 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 combined basis subject to 1965 PA 314.

Use of Estimates

Management of the System has made certain estimates and assumptions relative to the reporting of assets, liabilities, disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from these estimates.

GASB 27

The 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 of Michigan.

After separation from the State in 1996, the MERS Retirement Board (as an employer) elected to become a participating municipality in the MERS Defined Benefit Plan, and to provide pension benefits for MERS staff. Vesting occurs after six years of credited service; normal retirement age is 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 by the final average compensation based on the highest consecutive three years of compensation.

In 2011, MERS contributed 11.65% of compensation; employees contributed 2% of compensation.

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)
2008	$7,094,900	$9,390,969	$2,296,069	75.55%	$7,802,747	29.43%
2009	9,202,748	9,954,321	751,573	92.45	8,198,952	9.17
2010	11,347,345	11,893,235	545,890	95.41	9,113,922	5.99

Actuarial Accrued Liability from December 31, 2010 and December 31, 2009 Actuarial Valuations

	2010	2009
Retirees and beneficiaries currently receiving benefits	$1,558,188	$922,787
Vested former members not yet receiving benefits	341,525	277,431
Nonvested terminated employees (pending refunds of accumulated member contributions)	63,420	28,437
Current employees		
Accumulated employee contributions, including allocated investment income	1,239,889	1,090,160
Employer financed	8,690,213	7,635,506
Total Actuarial Accrued Liability	**11,893,235**	**9,954,321**
Net assets available for benefits at actuarial value ($7,352,387 and $5,098,808 at market value for December 31, 2010, and 2009, respectively)	11,347,345	9,202,748
Unfunded actuarial accrued liability	**$545,890**	**$751,573**

Three-Year Trend Information Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2009	$720,804	100%	-
December 31, 2010	994,080	100	-
December 31, 2011	920,736	100	-

Post Employment Benefits

The Government Accounting Standards Board (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 other post employment benefits. This enhances information disclosed in the "Notes to Basic Financial Statements," or presented as required supplementary information by pension plans and employers.

The MERS Retiree Health Funding Vehicle is designed to be an investment choice for municipalities rather than a plan for other post employment benefits. The other post employment benefit plan remains with the municipalities for their administration, and implementation of GASB Statement 50 will reside with them.

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. Real estate investments typically have a quarter lag in reporting, which is an industry standard.

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 eight-year spans. The table below is a schedule of the capital asset account balances as of December 31, 2010, and December 31, 2011.

Capital Assets

Capital Assets	Office Furniture and Equipment	Software	Total Capital Assets
Balances December 31, 2010	$2,789,073	$17,255,527	$20,044,600
Additions	867,144	2,702,480	3,569,624
Deletions and Transfers	(127,633)	(215,606)	(343,239)
Balances December 31, 2011	**$3,528,584**	**$19,742,401**	**$23,270,985**
Accumulated Depreciation			
Balances December 31, 2010	$1,790,429	$11,907,678	$13,698,107
Depreciation Expense	497,523	2,118,087	2,615,610
Deletions and Transfers	(127,633)	(215,605)	(343,239)
Balances December 31, 2011	$2,160,319	$13,810,160	$15,970,478
Net Capital Assets - December 31, 2011	**$1,368,265**	**$5,932,241**	**$7,300,506**

Total Columns On Statements

The "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 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.

Prior year amount have been reclassed for current year presentation.

3. Contributions and Reserves

Contributions

The Defined Benefit Plan 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 31 employee interest calculation. It is also used for interest calculations the subsequent year for those employees requesting a refund of their contributions. The municipality determines the employee's contributions.

Contributions to the Defined Contribution Plan are reported directly to MERS third party administrator by the participating municipalities, and are separate from contributions made to the MERS Defined Benefit Plan. Both employer contributions and employee voluntary and mandatory contributions are governed by the contribution limits under the Internal Revenue Code. Municipalities may elect to have mandatory employee contributions where the member pays a fixed dollar or percentage. If the municipality has a match contribution type, the member will elect the amount of contribution at the time of enrollment, and will not be allowed to make any changes. Municipalities may also choose to allow additional after-tax contributions through payroll deduction.

Participating municipalities may, upon adoption of a Defined Contribution resolution for new hires, offer current Defined Benefit employees an opportunity to opt into Defined Contribution. MERS transfers the actuarial present value of the employee's accrued benefit in the Defined Benefit Plan into the employee's Defined Contribution account (at a stipulated funded ratio that shall not exceed 100%). Employees direct their contributions to various investment options offered by the MERS Office of Investments, and may transfer their account balances between investment categories or make changes to the percentage allocation on a daily basis.

Defined Benefit Plan Reserves

Three reserves have been established pursuant to the MERS Plan Document. See "Schedule of Changes in Reserves" in the Statistical Section.

- **Reserve for Employee Contributions**

Employee contributions and interest are credited to this reserve. Also credited 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 December 31, 2011, was $669,544,791. The "Reserve for Employee Contributions" was fully funded as of the December 31, 2010, 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, the employee's accumulated contributions (if any and including interest) are transferred into this reserve from the "Reserve for Employee Contributions." Monthly benefits paid to retirees reduce this reserve. The December 31, 2011, balance was $5,268,359,467. The unfunded actuarial liability was $2,371,798,576 (based on the actuarial value of assets) as of the December 31, 2010, MERS Consolidated Actuarial Valuation.

- **Reserve for Expenses and Undistributed Investment Income**

All investment earnings and other monies received that are not dedicated to other areas 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 2011, 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.

Other Reserves

- **Reserve for Defined Contribution Plan**

All additions to and deductions from the Defined Contribution Plan are recorded in this reserve. MERS maintains the individual member account records.

- **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 individual member account records.

- **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 employer account records for all municipalities.

- **Reserve for Investment Services Program**

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

4. Investments

The Retirement Board has the fiduciary responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to manage the System's assets. All investment decisions are subject to statutory regulations imposed under the Michigan Public Employee Retirement System 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, and other investments. The Act sets forth prudent standards and requires the assets of the 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 to the 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, 2011, 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 recorded.

Credit Risk

Credit risk is the financial risk that an issuer or other counterparty will not fulfill its obligations to MERS. Credit risk exposure is dictated by each investment manager's agreement. Other criteria based on MERS Retirement Board's 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 Investments staff. Board policy also allows that when calculating the average rating of the portfolio, the manager may use the highest rating of the major rating agencies to calculate the average. Board policy, with regard 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 & Poor's. 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 use the highest rating of the major agencies to calculate the average. Board policy with regard 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 & Poor's 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, 2011, the domestic fixed income portfolio consisted of 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, 2011, is presented on the following pages, by investment category as rated by Standard & Poor's.

Credit Ratings Summary - December 31, 2011

Quality Rating	Agencies	Asset Backed	Corporate Bonds	Foreign	LMTD Part Units	Loans
AAA/Aaa	$68,780,047	$34,475,921	$70,982,982	$3,706,280	$-	$146,092
AA+/Aa1	91,053,469	2,901,845	41,348,146	85,158,110		
AA/Aa2	12,305,677	2,202,645	21,689,513	4,329,350		
AA-/Aa3	28,781,010	191,356	12,306,496			
A+/A1	12,571,959		28,901,427	184		
A/A2	13,402,265	1,397,957	64,482,075	3,943,219		
A-/A3	28,772,089	176,510	119,689,030	6,614,669		
BBB+/Baa1	1,254,360	4,496,874	58,832,960	12,087,077		
BBB/Baa2	23,095,151	1,640,409	44,346,250	5,008,005		
BBB-/Baa3	8,318,713		40,398,016	11,262,077		2,938,076
BB+/Ba1	1,971,792		30,945,219	14,228,351		4,821,042
BB/Ba2	6,747,524	133,476	36,584,162	15,983,493		9,317,434
BB-/Ba3	1,272,500		42,371,971	11,033,992		21,410,620
B+/B1	2,443,194		48,580,388	17,668,429		27,481,562
B/B2	2,095,764		35,990,493	8,063,738		21,053,506
B-/B3			23,245,305	2,784,825		14,463,126
CCC+/Caa1			13,207,111	1,954,058		7,369,539
CCC/Caa2		699,875	3,110,999			584,369
CCC-/Caa3		192,188	492,087			486,974
CC/Ca						
C			25,250			
D/C		4,062,674	857,337			211,022
NA			76,970			
Cash with no ratings					6,033,094	
NR*	2,631,960	1,928,213	12,647,300	809,371	234,772,471	8,684,368
Totals	**$305,497,473**	**$54,499,943**	**$751,111,488**	**$204,635,228**	**$240,805,565**	**$118,967,730**

** The Not Rated classification includes $235 million in a limited partnership infrastructure without credit ratings. Removing that classification leaves the overall portfolio at 2% not rated. Much of the limited partnership is with government and quasi government entities, backed by guaranteed revenue streams.*

Reconciliation of Investments	
Fixed income	$2,158,709,915
Cargill	296,931,511
Cash	108,560,260
Subtotal of investments	2,564,201,686
Total from page 39	2,615,768,691
Difference from investments	**51,567,005**
Payables settling in 2012	-342,290,804
Receivables settling in 2012	280,974,984
Foreign Exch. settling in 2012	1,741,404
Manager differences	8,007,413
Small difference	-2
Total	$(51,567,005)

Mortgage Backed Securities	Municipals	Other	Short-Term Cash	U.S. Treasuries	Total	% of Portfolio
$49,944,820	$1,712,671	$-	$16,961,968	$64,427,319	$311,138,101	11.89%
166,031,015	5,466,210		70,861,055	181,879,700	644,699,549	24.65%
2,464,220	11,788,636		782,860	2,674,772	58,237,673	2.23%
2,591,732	16,043,952				59,914,547	2.29%
3,687,426					45,160,996	1.73%
3,718,585	6,462,896		2,348,580	8,024,316	103,779,894	3.97%
127,983	3,148,259				158,528,540	6.06%
1,031,187					77,702,459	2.97%
4,755,292			2,870,487	9,807,497	91,523,090	3.50%
2,081,725					64,998,607	2.48%
65,752					52,032,156	1.99%
127,077					68,893,166	2.63%
486,752					76,575,835	2.93%
485,051					96,658,624	3.70%
344,779					67,548,280	2.58%
1,963,593					42,456,849	1.62%
100,510					22,631,218	0.87%
1,277,644					5,672,887	0.22%
6,642					1,177,891	0.05%
823,081					823,081	0.03%
					25,250	0.00%
1,491,124					6,622,157	0.25%
					76,970	0.00%
			260,558,654		266,591,748	10.19%
6,761,539	801,965	9,431,409	3,131,440	10,699,088	292,299,124	11.17%
$250,367,529	**$45,424,589**	**$9,431,409**	**$357,515,045**	**$277,512,692**	**$2,615,768,691**	**100%**

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates. Interest rate risk is controlled through diversification of portfolio management styles. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Sensitivity to changing interest rates may derive from prepayment options embedded in an investment. The Board policy, in regard to interest rate risk, is that the effective duration of the domestic portfolio shall be (+/-) 20% of the Barclays Capital Aggregate Index or the Barclays Universal Bond Index. Board policy in regard 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 Barclays Capital 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, 2011, the Plan's exposure to interest rate risk (as measured by the effective duration method summary) is listed on the following page by investment type.

Effective Duration – December 31, 2011

Investment Type	Market Value	Weighted Effective Duration
Agency	$96,539,920	2.09
Agency MBS	39,143,004	4.61
Asset Backed	53,252,903	3.34
Cash Equivalent	104,566,982	1.26
CMBS	32,199,166	2.69
CMO	11,395,114	5.42
Commingled Fund	241,414	2.66
Convertible	174,902	9.42
Corporate	472,846,209	5.56
Credit	41,317,615	4.61
Foreign	224,700,916	6.76
Loans	118,967,730	3.52
Mortgage Pass-Through	135,116,620	4.23
Municipal	5,956,333	3.00
Preferred Stock	89,322	22.90
Private Placement	4,142,570	1.03
Quasi Sovereign	39,781,023	5.72
Sovereign	74,853,147	5.72
Swaps	-2,873,158	4.35
US Treasury	327,899,957	5.51
Yankee (Intl bonds in U.S. dollars	82,639,332	6.85
	$1,862,951,023	

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. The 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 other than those issued or explicitly guaranteed by the U.S. government as of December 31, 2011.

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, 2011, is summarized on the following page.

Custodial Credit Risk

Custodial credit risk is the risk that deposits may not be recovered in the event of failure of a depository financial institution. As of December 31, 2011, the $230.6 million carrying amount of the Plan's cash and cash equivalents was comprised of $224.9 million of short-term investments, and $5.7 million in deposits. The $5.7 million bank balance of deposits was subject to custodial credit risk because it was uninsured and uncollateralized.

Foreign Currency Risk in U.S. Dollar Denominations – December 31, 2011

Currency	Equities	Fixed Income	Cash	Real Estate	Total
Argentine peso		$425,889	$13,487		$439,376
Australian dollar	$16,793,704	31,582,156	1,106,754	$54,375	49,536,989
Brazilian real	17,708,774	10,868,053	125,829		28,702,656
British pound sterling	59,847,388	1,976,583	129,895	65,415	62,019,281
Canadian dollar	12,219,089	19,539,583	15,829	85,115	31,859,616
Colombian peso		1,700,791			1,700,791
Czech koruna		8,055,017			8,055,017
Danish krone	4,271,593	8,936,959	285,649		13,494,201
Euro	44,205,701	53,061,914	317,600	205,859	97,791,074
Hong Kong dollar	35,574,751		196,819	143,195	35,914,765
Hungarian forint			36		36
Indonesian rupiah	1,926,429		10,395		1,936,824
Israeli shekel	107,200		95		107,295
Japanese yen	62,498,418	22,347,274	504,088	4,892	85,354,672
Malaysian ringgit	1,160,437	11,309,064	68,555		12,538,056
Mexican peso	72,872	12,636,275	487,371		13,196,518
New Taiwan dollar	2,175,463		738,329		2,913,793
New Turkish lira			94		94
New Zealand dollar	71,264	15,228,068	248,393		15,547,725
Norwegian krone	5,434,006	14,563,190	1,369		19,998,565
Philippine peso	220,966	162,011	8,726		391,703
Polish zloty	373,922	8,965,509	11,313		9,350,744
Singapore dollar	6,403,044		367,662	327,239	7,097,945
South African rand	3,959,631	8,149,925	439,649		12,549,205
South Korean won	14,119,833	8,168,603	17,519		22,305,955
Swedish krona	1,932,577		66,834		1,999,411
Swiss franc	3,081,813		2		3,081,815
Thai baht	1,374,103		12,002		1,386,105
Turkish lira	304,532	1,472,654		1,195,793	2,972,979
Total International Investment Securities	**$295,837,509**	**$239,149,519**	**$5,174,293**	**$2,081,884**	**$542,243,206**

Securities Lending

MERS policy authorizes participation in a securities lending program administered by its global custodian, State Street Bank and 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 MERS and other participating clients on approximately the 15th day of the following month. The securities loans are open contracts and, therefore, could be terminated at any time by either party.

The borrower collateralizes the loan with either cash or securities at 102% of market value plus accrued interest on domestic securities, and 105% of market value plus accrued interest on international securities loaned. Due to the nature of the Program's collateralization of U.S. fixed income securities loans at 102% plus accrued interest, MERS management believes 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 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. As of December 31, 2011, the fair market value of fixed income securities invested in the cash collateral pool was below the original cost, resulting in a cumulative unrealized loss of $5,277,834 that is reflected in the financial statements. Security lending produced a net income of $2,900,411 in 2011 excluding unrealized gains and losses.

Collateral Held and Fair Value of Securities on Loan – December 31, 2011

Fair Value of Securities on Loan	Nature of Collateral	Collateral Held
$757,295,831	Cash	$776,695,757
-	Non-Cash	-
$757,295,831		**$776,695,757**

Securities Lending Collateral

	S & P Rating	Percentage	Amount
Short-Term Credit Ratings	A-1+/P-1 *	29.68%	$230,559,603
	A-1/P-1 *	43.12	334,906,830
Long-Term Credit Ratings	AAA	4.42	34,300,966
	AA	12.28	95,383,054
	A	9.51	73,881,335
	BBB+	0.00	0
	BBB	0.25	1,974,517
	BBB-	0.00	0
	BB+	0.36	2,795,499
	BB	0.00	0
	BB-	0.00	0
	Other	0.37	2,893,953
		100.00%	**$776,695,757**
Net accumulated depreciation in fair value			-5,277,834
Invested Securities Lending Collateral			$771,417,923

* *A short term obligation rated A-1/P-1 is rated in the highest category by both Standard & Poor's (S&P) and Moody's Investor Services. These issuer's have a superior ability to repay short-term obligations. S&P will designate certain issues with a plus sign (+) to indicate that the obligor's capacity to meet its financial commitment is extremely strong.*

Derivatives

Derivative instruments are financial contracts whose value depends on the values of underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, credit-linked notes (CLN) and forward foreign currency exchange. While the Board has no formal policy specific to derivatives, MERS holds investments in futures contracts, swap contracts, credit linked notes, and forward foreign currency exchange. MERS enters into these derivative contracts primarily to obtain exposure to different markets to enhance the performance, and reduce the volatility of the portfolio. It enters swaps and futures contracts to gain or hedge exposure to certain markets, and to manage interest rate risk and forward foreign exchange contracts primarily to hedge foreign currency exposure.

The following tables summarize the various contracts in the portfolio as of December 31, 2011. The notional value associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. Interest rate risks associated with these investments are included in the table. MERS does not anticipate additional significant market risk from the swap arrangements.

Swap Contracts and Structured Notes - December 31, 2010

Name	Maturity Date	Position	Cost	Market Value	Counterparty
S&P GSCI Total Return Index	5/31/12	Long	$283,947,554	$279,746,266	Cargill Risk Management
CDX North American High Yield	12/20/16	Short	(1,385,010)	(973,266)	Goldman and JP Morgan
CDX North American Inv. Grade	12/20/16	Short	(360,151)	(162,728)	JP Morgan Chase
Int. Rate Swap (USD)	12/9/19	Receive Floating	2,030,000	1,745,200	Citigroup
CLN Colombia Govt.	7/27/20	Long	635,468	603,006	Citigroup
CLN Brazil Govt.	1/1/21	Long	3,026,703	2,939,493	Citigroup and JP Morgan
CLN Colombia Govt.	7/24/24	Long	155,270	146,607	Citigroup
CMBX AAA	12/13/49	Short	(1,033,288)	(761,312)	Goldman and JP Morgan
CMBX Index	2/17/51	Short	(1,230,540)	(812,819)	Citigroup

Swap contracts are governed by International Swaps and Derivatives Association Master Agreements, MERS and counterparties. These agreements require collateral to be posted by either party when exposure exceeds the amount specified in the agreement (usually $250,000 to $5,000,000).

Foreign Currency Forward Contracts

Pending Receivable	$193,765,268
Pending Payable	(191,571,760)
Foreign Currency Forward Contract Asset (Liability)	**$ 2,193,508**

Futures and Options Contracts - December 31, 2011

Futures Contract	Expiration Date	Long/Short	Cost	Market Value
US 2-Yr Treasury Note	3/31/12	Short	$ (800,000)	$ (882,188)
US 5-Yr Treasury Note	3/31/12	Long	16,700,000	21,897,875
US 10-Yr Treasury Note	3/31/12	Long	49,200,000	60,642,844
US Long Treasury Bond	3/31/12	Short	14,900,000	21,577,063
US Dollar Put / Japenese Yen Call Option	2/24/14	Long	217,000	91,350

MERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MERS and its investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. MERS anticipates that counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and combined funds may include derivatives that are not shown in the derivatives' totals.

Private Equity and Capital Calls

The MERS Board has approved $862,866,742 for investment in private equity securities. As of December 31, 2011, $852,517,187 was invested in private equity with $70,073,578 recallable return of capital, leaving $80,423,133 available for future investments.

5. Commitments and Contingencies

In the normal course of business, benefit claims are in various states of development. Determinations are made through established administrative procedures. The Retirement Board is responsible for making final judgments but may be subject to judicial review. MERS does not anticipate any material loss as a result of these claims. Furthermore, the cost of a successful benefit claim is ultimately the responsibility of the affected municipality – it becomes a 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. Related Parties

MERS is the majority stockholder of the Tegrit Group, and its division Tegrit Administrators. This is an investment in the MERS Strategic Opportunity Fund held within the MERS Total Market Fund. Tegrit is the recordkeeper for the MERS Defined Benefit Plan, Defined Contribution Plan, Hybrid Plan, Retiree Health Funding Vehicle, Investment Services Program, and the Health Care Savings Program. MERS paid Tegrit $4,216,800 in 2011 for primary pension software and third party administration fees.

7. Subsequent Events

In 2012, MERS implemented a 457 Supplemental Retirement Program and took over the development and management of the investment lineup. Additionally, Tegrit Administrators, a MERS majority-owned subsidiary, assumed the 457 Program administration, reporting and recordkeeping.

On April 26, 2012, the Internal Revenue Service issued MERS its most recent Favorable Letter of Determination, stating that MERS meets the requirements of IRC Section 401(a) as applicable to government plans.

8. Funded Status and Funding Progress

The funded status of the MERS Defined Benefit Plan is as follows:

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)
2010	$6,945.4	$9,317.2	$2,371.8	74.54%	$1,684.0	140.8%

Actuarial assumptions include a 10-year smoothed market asset valuation method adopted December 31, 2005, with prospective application and an investment rate of return of 8%. The December 31, 2010, actuarial valuation reflects changes in actuarial assumptions for a temporary lower wage inflation assumption and revised rates of expected employee retirement. The "Schedule of Funding Progress" that follows the "Notes to Basic Financial Statements" presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to actuarial accrued liability.

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 2011 were determined by actuarial valuations as of December 31, 2009.

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

The annual required contributions shown in the required supplementary schedule represents 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 the contributions recorded during MERS fiscal year.

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 is in the Actuarial Section.

Summary Information

Valuation Date	December 31, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	There are 28 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities. The 28-year period will decline by one year in each of the next annual valuations until it reaches 20 years. At the March, 2011, Board meeting, the MERS Board voted to hold the 28-year amortization period for unfunded accrued liabilities constant for the 2010 valuation; then, to let it decline by one year each year beginning with the 2011 valuation. The amortization for unfunded accrued liabilities will reach 20 years with the December 31, 2018, valuation, at which time it will remain constant. 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	A 10-year smoothed market asset valuation method was adopted December 31, 2005, with a prospective application. Prior to 2006, a 5-year smoothing method was used.
Actuarial Assumptions	Investment Rate of Return – 8%
Projected Salary Increases	A 4.5% for base inflation, plus 0.0% to 8.4% per year attributable to merit and longevity. For the 2009 valuation, the base wage inflation assumption was 2% instead of 4.5%. For the 2010 through 2013 valuations, the base wage inflation assumption will be 1% instead of 4.5%.
Post-Retirement Benefit	A 2.5% annual post-retirement benefit adjustment – if adopted by individual municipalities.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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)
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
2007	5,973.0	7,723.9	1,750.9	77.33	1,581.6	110.7
2008	6,245.5	8,321.9	2,076.4	75.05	1,624.9	127.8
2009	6,443.1	8,534.7	2,091.6	75.49	1,636.5	127.8
2010	6,945.4	9,317.2	2,371.8	74.54	1,684.0	140.8

Schedule of Employer Contributions – (Dollars in Millions)

Fiscal Year	Annual Required Contribution	Percentage Contributed
2006	$199	107%
2007	258	92
2008	224	109
2009	229	113
2010	264	110
2011	266	111

Schedule of Administrative Expenses for the Year Ended December 31, 2011

Administrative Expenses	
Personnel Services	
Salaries	$9,197,486
Social Security	678,624
Retirement	1,081,714
Insurance	1,770,230
Total Personnel Services	**12,728,054**
Professional Services	
Third Party Administrator	1,130,359
Actuarial Services	1,040,639
Audit Services	30,300
Commercial Banking	123,330
Computer Maintenance	5,124
Consultants	352,254
Legal Services	230,142
Medical Services	65,850
Total Professional Services	**2,977,998**
Communication	
Advertising / Promotional Supplies	30,276
Annual Meeting	134,841
Board Travel and Meetings	27,643
Library and Records Storage	51,944
Postage / Shipping	242,256
Printing and Copying Services	39,316
Telephone / Communications	250,736
Travel and Meetings	459,004
Total Communication	**1,236,016**
Rentals	
Equipment Rental	108,102
Office Rental	687,600
Total Rentals	**795,702**
Miscellaneous	
Depreciation	2,615,610
Equipment Purchases	190,979
Insurance	261,492
Building / Equipment Maintenance	436,116
Office Supplies	105,869
Operating Expenses	1,225,074
Payroll Processing	18,271
Personnel Support	231,478
Professional Development & Tuition	272,928
Software Purchases and Maintenance	907,540
Subscriptions / Memberships	75,135
Service Fees	(2,008,649)
Third Party Administration Fees	3,219,667
Total Miscellaneous	**7,551,510**
Total Administrative Expenses	**$25,289,280**

Note: See accompanying Independent Auditor's Report.

Schedule of Investment Expenses for the Year Ended December 31, 2011

Investment Expenses	
Personnel Services	
Salaries	$909,626
Social Security	62,793
Retirement	106,124
Insurance	126,926
Total Personnel Services	**1,205,469**
Professional Services	
Commercial Banking	1,072,485
Investment Managers	16,058,964
Investment Performance	102,000
Other Consultants	101,641
Total Professional Services	**17,335,090**
Communication	
Travel	64,707
Total Communication	**64,707**
Miscellaneous	
Memberships	11,278
Operating Expenses	308,087
Software Purchases/Maintenance	239,827
Total Miscellaneous	**559,192**
Total Investment Expenses	**$19,164,458**

Note: See accompanying Independent Auditor's Report.

Schedule of Payments for Consultants and Services

Firm	Nature of Service	Amount
Tegrit Financial Group LLC	Pension Design & Software Support	$2,940,200
State Street Corporation	Depository Trust Banking Services	1,858,500
Tegrit Administrators	HCSP, RHFV & DC Support	1,276,600
Gabriel, Roeder, Smith & Company	Actuarial Services	1,224,200
Kentwood Office Furniture	Office Furniture and Design Services	325,200
Robbins-Gioia Financial Services Group	FileNet System Implementation & Support	301,500
Dell Marketing L.P.	Computer Software & Hardware Sales	248,200
Crowe Horwath LLP	Microsoft GP Implementation & Support	231,300
Johnston Lewis Associates, Inc.	Business Insurance Services	158,400
Ice Miller LLP	Legal Counsel	155,900
American Interiors	Office Furniture and Design Services	155,500
Abacus Solutions	Software Implementation Advisor & Support	153,700
DPM Consulting Services	Software Implementation Advisor & Support	153,400
TEK Systems	Software Implementation Advisor & Support	146,000
University of Michigan–Ross Executive Education	Leadership Development Programs & Classes	144,800
PC Connection Sales Corporation	Computer Software & Hardware Sales	143,500
Bloomberg Finance L.P.	Investment Financial Data Service	116,000
JoHo Technologies	Software Implementation Advisor & Support	88,100
Daymark Software LLC	CRM Software Support	83,700
New London Management Associates LLC	Human Resources Consulting Services	73,900
Consulting Physicians	Medical Advisors	65,900
Leaf Financial Services	PC Equipment Leasing Services	64,000
Andrews Hooper and Pavlick PLC	Auditing Services	62,100
Michigan Municipal Risk Management	Business Insurance Services	49,900
Reinhart Boerner Van Deuren S.C.	Legal Counsel	49,800
Investor Responsibility	Investment Financial Data Service	49,500
Oracle America, Inc	PeopleSoft Software Support	47,600
CBIZ Human Capital	Compensation Consulting Services	47,600
Riverside Integrated Systems, Inc.	Building Security Services	44,400
Presort Mailing Services, Inc.	Mass Mailing Services	43,900
Carol L. Grainger	Training Materials Production Services	41,000
GaveKal Capital Management LTD	Investment Financial Data Service	40,000

All items are rounded up or down to the nearest $100.00.

Note: Fees paid to investment managers are included in the Investment Section. Payments to consultants are already included in the Administrative and Investments Expenses stated in the Statement of Changes in Plan Net Assets.

Note: See accompanying Independent Auditor's Report.