GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM ANNUAL REPORT

for the Year Ended
December 31, 2006

RETIREMENT COMMISSION MEMBERS

Warren Vyvyan, Chairperson, Elected Employee Representative
Christopher Kwasneski, Vice-Chairperson, Elected Employee Representative
Jeffrey Cyphert, Elected Retiree Representative
Richard Hammel, Ex-Officio Commissioner
Debra Kozan, Elected Employee Representative
George Martini, Secretary, Ex-Officio Commissioner
David Miller, Ex-Officio Commissioner
John Northrup, Ex-Officio Commissioner
Danis Russell, Ex-Officio Commissioner

WHERE TO WRITE FOR INFORMATION:

Genesee County Employees' Retirement System
Retirement Office Supervisor
1101 Beach Street
Flint, MI 48502
Telephone: (810) 257-2626 or (800) 949-2627
Fax: (810) 257-3560
Email: retirement@co.genesee.mi.us
Web site: www.co.genesee.mi.us

Public Pension Coordinating Council

Public Pension Standards

2006 Award

Presented to

Genesee County Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

INDEPENDENT AUDITORS
Plante & Moran, PLLC

ACTUARY
Rodwan Consulting Company

INVESTMENT MANAGERS
ABN-Amro Asset Management, Inc
AEW Value Investors, LP
Arnhold and S. Bleichroeder, Inc.
Barclay's Global Investors
Calamos Asset Management
Cortina Asset Management
EARNEST Partners
Guggenheim Real Estate Partners
Loomis Sayles & Company, LP
Pacific Investment Management Company (PIMCO)
Prudential Investments (PRISA)
Western Asset Management

COMMISSION RECAPTURE FIRMS
BNY Convergex
Russell Implementation Services

CONSULTING SERVICES/EVALUATIONS/MANAGER SEARCHES
Asset Strategies Portfolio Services, Inc.

CUSTODIAL BANK & SECURITIES LENDING AGENT
Comerica Bank

ATTORNEYS
VanOverbeke, Michaud & Timmony, P.C.
Labaton Sucharow, L.L.P.

MEDICAL DIRECTOR
Asfandiar Shukri, M.D.

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

The Introductory Section Contains:

- **Secretary's Letter**
- **Organization Chart**
- **Sources and Disbursements of Revenue**
- **Summary of Benefits**

Genesee County Employees' Retirement System
Secretary's Letter

Retirement System Members and Interested Citizens
Genesee County, Flint, Michigan

We are pleased to submit the 28th Annual Report of the Genesee County Employees' Retirement System (also referred to as GCERS) for the year ended December 31, 2006.

The annual report is presented in four sections: (1) the Introductory Section which provides information of a general nature regarding the System; (2) the Financial Section consisting of the audited financial statements and the accompanying notes to the Financial Statements; (3) Investment Analysis and Supplemental Information concerning the System's investment performance; and (4) the Actuarial Section which summarizes the results of the annual actuarial report as of December 31, 2006.

ORGANIZATION

The GCERS was organized pursuant to Section 12 (a) of Act #156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended, State of Michigan. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the System in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980.

The GCERS is regulated under the Genesee County Employees' Retirement Ordinance and individual union/management collectively-bargained contracts. This Ordinance has been approved by the Genesee County Board of Commissioners and the State of Michigan Pension Plan Committee, during its existence.

ADMINISTRATION OF SYSTEM

The administration and responsibility for the proper operation of the System is vested in the Genesee County Retirement Commission, which is comprised of the following representatives as defined by Ordinance:

a. Three employee representatives elected by the System membership for three-year staggered terms, which results in the election of one employee Commissioner yearly.

b. The Chairperson of the Genesee County Board of Commissioners by virtue of his or her election to that office.

c. The Chairperson of the Genesee County Finance Committee by virtue of his or her appointment to that office.

d. The Chairperson of the Board of County Road Commissioners by virtue of his or her election to that office.

e. The Executive Director of the Community Mental Health services by virtue of his or her appointment to that office.

f. The Genesee County Controller by virtue of his or her appointment to that position.

g. A Retiree Representative elected by the retirees to a two-year term of office.

The following describes the Departments and outside firms that assist the Commission in carrying out its fiduciary responsibilities. The Organization Chart, Exhibit I, also illustrates these responsibilities

PROFESSIONAL SERVICES

The Retirement Commission has a fiduciary responsibility for the proper management of the System, and as such obtains the services of various professionals to aid it in its management. These professionals are:

The ***County Controller*** serves as Secretary to the Retirement Commission and as Plan Administrator.

The ***Retirement Office Superviso***r serves as a staff aide to the Retirement Commission and works under the direct control of the Controller in the administration of the System.

The Commission has hired ***outside legal counsel*** as advisors to the Retirement Commission.

The respective ***Employer Human Resources Departments*** provide services administering retirees' health and life insurance plans.

The Commission appoints an ***Actuary*** who prepares an annual actuarial valuation to determine the adequacy of the funding of retirement benefit liabilities accrued by System members.

The Commission hires an outside ***professional consultant*** to evaluate investment manager performance, review the asset allocation mix, and perform investment manager searches.

An outside ***Auditor*** is engaged on an annual basis to ensure that the financial statements accurately reflect the financial position of the System and that the results of its yearly operations conform to generally accepted accounting principals.

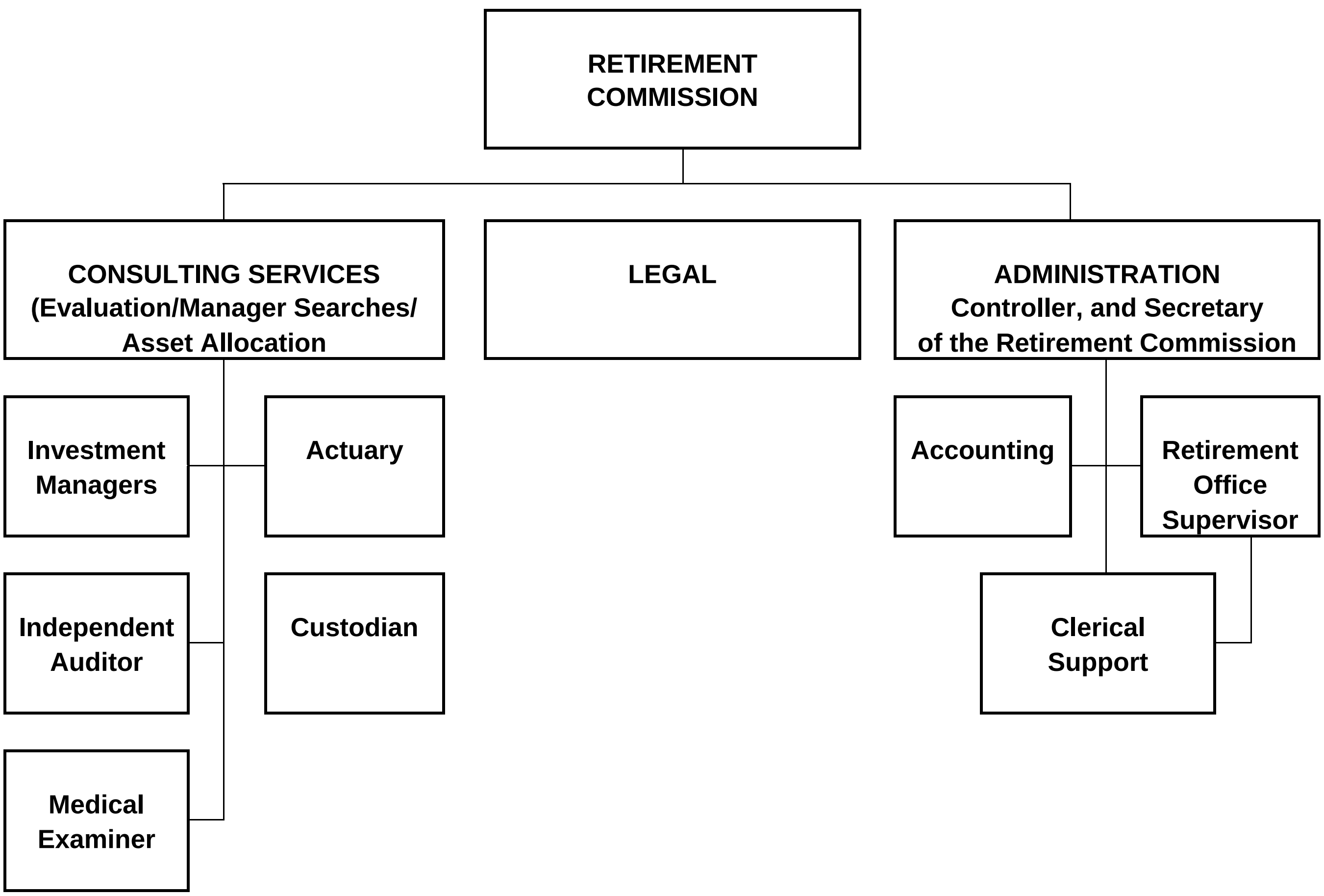
A ***Medical Director*** is appointed by the Commission to review and evaluate medical evidence and propose recommendations regarding applications for disability retirements.

Investment Managers are hired to invest the System's assets consistent with the objectives and direction of the Commission. The System's investment performance is monitored externally by an independent evaluation service. The Retirement Commission has also retained two firms to recapture fees paid in commissions on the purchase and sale of assets.

The ***Custodian*** is hired by the Commission to handle the cash transactions due to the buying and selling of securities. The Custodian follows through on the Investment Managers' decisions on investments.

The Commission retains the services of ***outside special counsel*** for the purposes of monitoring securities litigation.

Exhibit I – Organization Chart



ACCOUNTING SYSTEM AND REPORTS

The accounting records of the GCERS are maintained on an accrual basis and all System costs and expenses are borne by the System.

Annually, as required by the Retirement Ordinance, the Retirement Commission submits an Actuarial Valuation Report, a Statement of Plan Net Assets, and a Statement of Changes in Plan Net Assets to the Genesee County Board of Commissioners.

HOW THE FUND OPERATES

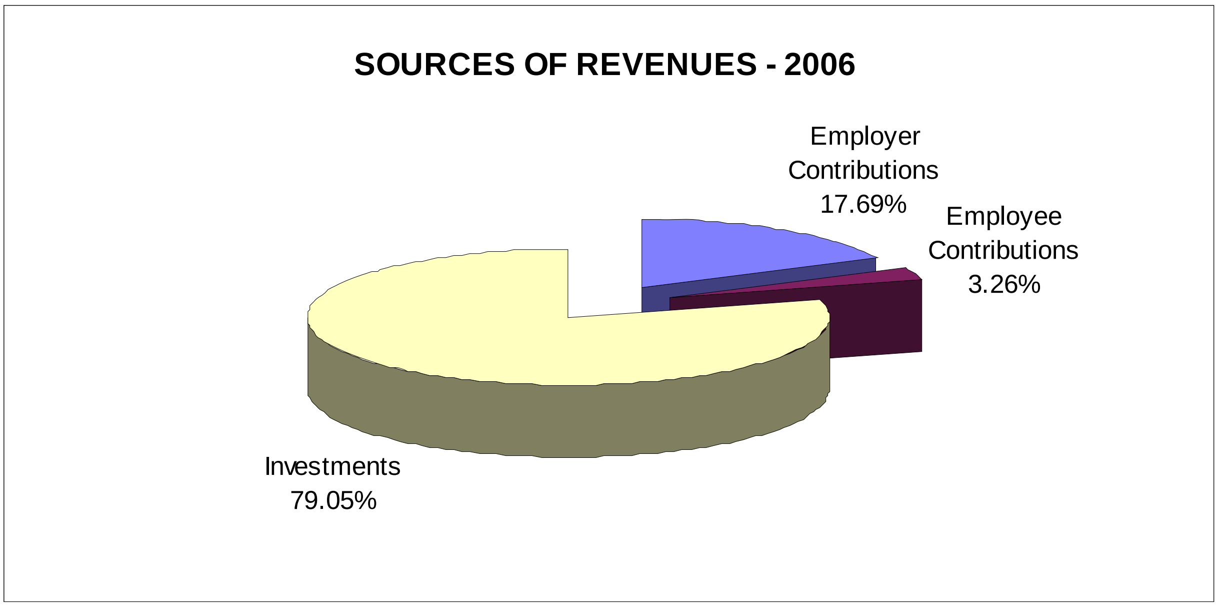
The revenues essential to the sound funding of the System are derived from three sources. The chart of page six identifies the percentage of revenues and distribution of revenues by source.

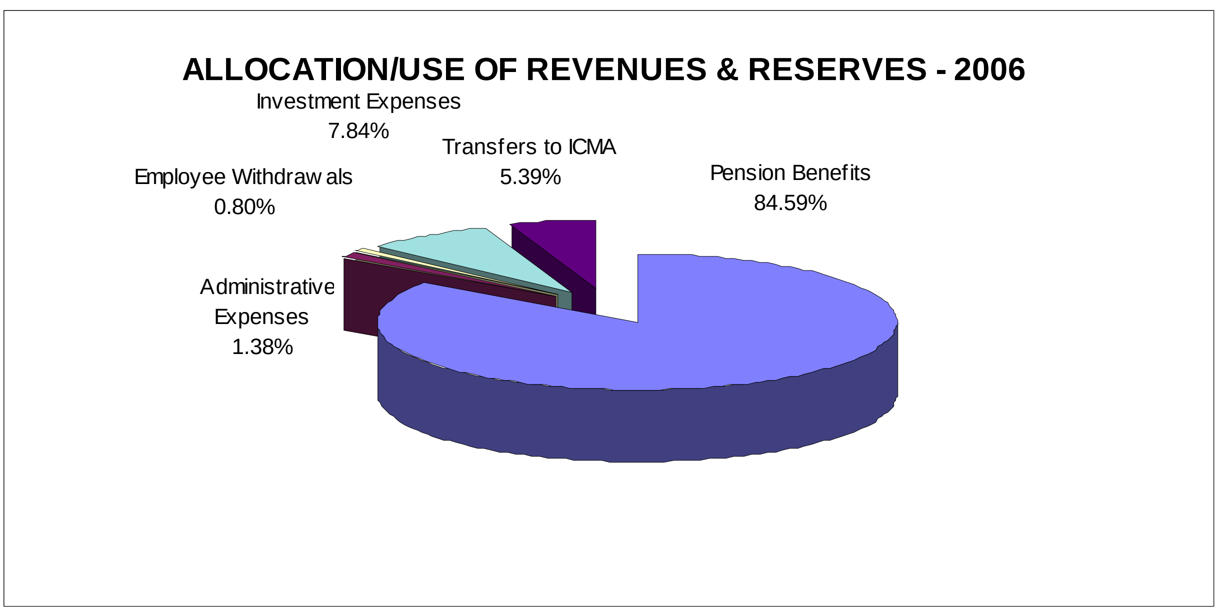
Contributions by Members: Employee contributions are calculated on all monetary compensation, including overtime. The member contribution rates vary by employer and the respective collective bargaining agreements and/or personnel policies. These rates differ from 0.5% to 6.5%. The employee deposits are posted to individual accounts for each member. The accumulated amount in each account is used for the member's benefit if he or she remains in service. Members leaving service may withdraw the amount of their accumulated contributions together with interest that was credited to the individual account. Employees have a deferred retirement benefit that varies by employer, respective collective bargaining agreements and/or personnel policy and employment starting dates. This benefit varies between 8 and 15 years of credited service, and allows an employee to leave employment after satisfying the required vesting period and commence a pension benefit when that employee would normally have met the age and service requirements had the employee not left employment. If a deferred member dies before retirement and no other death benefits are payable, his or her beneficiary or estate will receive his or her contributions. Employee contributions accounted for 3.26% of total income for 2006.

Contributions by Employer: While members are paying toward their retirement, the employer groups are depositing contributions on behalf of members employed by them. The GCERS provides for payment of required employer contributions, which rates vary among the employer groups and from year-to-year. The employer contribution rates are determined on the basis of the annual actuarial valuation, which indicates the needed revenues, in addition to the members' contributions and assumed investment income, to fund the allowances promised by the System. Employer contributions accounted for 17.69% of total income for 2006.

Investment Income: Investment income is the third source of System revenues and must be regarded as both a vital and major contributor to the GCERS. This income assists the governmental employer groups in controlling costs and protects the future security of System members. The investment income for 2006 accounted for 79.05% of the total income.

Expenditures of System: The cost of all benefits, services, and operations are borne by the System. This totaled $34,277,488 for 2006. The allocation of this cost was 84.59% for retiree pension benefits, 7.84% for investment related fees, 0.80% for employee withdrawals, 5.39% to ICMA as transfers to the Defined Contribution plan, and 1.38% for administrative expenses.





HIGHLIGHTS

The U.S. equity market made broad gains and small cap stocks unexpectedly outperformed their large cap peers.

A slide in crude oil prices throughout the year helped hold down overall consumer-level inflation as the Consumer Price Index fell .54% in the fourth quarter.

The U.S. bond market contended with a flat-to-inverted Treasury yield curve for the entire year, with the entire curve lower than the Fed Funds rate at year-end. Many investors interpret this as a sign of an impending economic slowdown or recession. Short-term treasuries outperformed longer-term bonds, and strength in corporate earnings led to corporate bonds outperforming government issues.

Global markets were strong in the fourth quarter, benefiting from the weakness in the U.S. dollar. Emerging market stocks outperformed developed-market stocks in U.S. dollar-based terms.

The Retirement System experienced a 12.22% overall gain in 2006. The System's funded status improved to 91.0%, while the value of assets increased $36.3 million, from $463.6 million at December 31, 2005, to $499.9 million at December 31, 2006. As a mature plan, the monthly retiree benefit payments exceed the total of employee and employer required contributions, adding to a reduction in assets. The Genesee County Employees' Retirement System continues to remain in good financial health.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined effort of the Retirement Office Supervisor and the Genesee County Controller's Office staff and is designed to provide the County Board of Commissioners, members of the System, and the public with detailed investment, financial, and actuarial information regarding the GCERS' operations.

I hope that this year's report will be of interest to you and will be useful in understanding, evaluating, and assuring the continued success of the System.

Respectfully submitted,

George Martini

George Martini
Secretary

SUMMARY OF BENEFITS – December 31, 2006

(Subject to contractual or management changes – See matrix and applicable union contract for specific benefit provisions)

DESCRIPTION OF THE SYSTEM

The Genesee County Employees' Retirement System is a contributory defined benefit plan that provides for pension and disability benefits for employee members. Because the Retirement System is a multiple-employer retirement fund, each employer has the ability to negotiate and/or establish through personnel policy retirement benefits with their respective employees. Subsequently, the employers and employees assume the related cost liabilities. The System requires contributions that will provide assets sufficient to meet the future benefits to be paid to members.

The following is a description of the benefits of the Genesee County Employees' Retirement System. Complete details of the benefits and other aspects of the program may be found in the law and in the rules and regulations of the Retirement Commission.

Final Average Compensation (FAC) is a frequently used term describing Genesee County Employees' Retirement System benefits. It means the average of the highest two, three, or five years of earnings contained with the period of service being considered, usually, but not necessarily the last years of employment, depending upon the labor agreement and individual employer personnel policies.

BENEFIT PROVISIONS

Eligible employees may become members of GCERS and are required to deposit from 0.50% to 6.5% of all monetary compensation, including overtime. Deposits are accumulated in individual accounts for each member remaining in service. If a member leaves service, he or she may withdraw his or her accumulated contributions together with the interest credited to his or her account; or members with eight years of service may elect a deferred annuity providing a lifetime benefit. Four employers have negotiated a fifteen-year service provision for the deferred annuity for new employees, each with a different effective date. The requirements for regular retirement vary by bargaining group from a 20 to 25 year anniversary date of employment or age 60 with the required years of credited service based upon collective bargaining agreement or personnel policy. Full retirement benefits vary by bargaining unit. Benefit computations also vary, but generally are computed at final average compensation times the sum of 2.0-2.5% for the first 25 years of service plus 1% for years of service in excess of 25 years. (NOTE: Some contracts allow 2.4% or 2.5% for all years of service.)

Duty Disability Retirement

Eligibility: No age or service requirements. Must be in receipt of worker's compensation.

Annual Amount: Computed as a regular retirement with additional service credit granted from date of retirement to date regular retirement age would have been attained Prior to age 65, maximum benefit is 90% of FAC (increased by 2.5% for each year of retirement) less worker's compensation payments and/or other remuneration.

Groups Covered: All.

Non-Duty Disability Retirement

Eligibility: Generally 10 or more years of credited service.

Annual Amount: Computed as a regular retirement. Prior to age 65, maximum benefit is 90% of FAC (increased by 2.5% for each year of retirement) less long-term disability benefits and/or other remuneration.

Groups Covered: All.

Duty Death Before Retirement

Eligibility: No age or service requirements. Must be in receipt of worker's compensation.

Annual Amount: Refund of accumulated contributions. Upon termination of worker's compensation the same amount is paid by the Retirement System to the window for life or until remarriage, to unmarried children under 18 and to dependent parents.

Groups Covered: All.

Non-Duty Death Before Retirement

Eligibility: 15 or more years of credited service or age 60 with 10 or more years of service.

Annual Amount: Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election (Option A).

Groups Covered: All.

Nothing contained in this retirement Annual Report is intended, or shall be construed, as in any way creating or establishing any right or entitlement, for any purposes or in any manner whatsoever, for the applicant, until approved by the Actuary and the Retirement Commission.

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
(December 31, 2006)

	% OF FAC MAX. BENEFIT			DEFERRED VESTED (YEARS)		FAC PERIOD (YEARS)			COLA PERCENTAGE				
	60%	65%	75%	15	8	2	3	5	2%	3%	3.5%	4%	1.75% 9 YR
GENERAL COUNTY - BEFORE 1/1/88			X		X	X				X			
GENERAL COUNTY - AFTER 1/1/88			X	X		X				X			
GENERAL COUNTY - AFTER 7/1/96 (496 ONLY)			X	X		X				X			
SHERIFF LOCAL POAM DEPUTIES - BEFORE 1/1/88			X		X	X							X
SHERIFF LOCAL POAM DEPUTIES - AFTER 1/1/88			X	X		X							X
SHERIFF LOCAL POAM DEPUTIES - AFTER 1/1/00			X	X		X							X
SHERIFF LOCAL 916 F&G LTS./SGTS. - BEFORE 1/1/88			X		X	X							X
SHERIFF LOCAL 916 F&G LTS./SGTS. - AFTER 1/1/88			X	X		X							X
SHERIFF LOCAL 916 F&G LTS./SGTS - AFTER 1/1/99			X	X		X							X
MENTAL HEALTH NON UNION - BEFORE 2/9/89		X			X		X		#				
MENTAL HEALTH NON UNION - AFTER 2/9/89	X			X			X		#				
MENTAL HEALTH TEAMSTERS - BEFORE 2/9/89		X			X		X		#				
MENTAL HEALTH TEAMSTERS - AFTER 2/9/89		X		X			X		#				
MENTAL HEALTH AFSCME - BEFORE 2/9/89		X		X			X		#				
MENTAL HEALTH AFSCME - AFTER 2/9/89		X		X			X		#				
MENTAL HEALTH PROGRAM CHIEFS		X			X		X		#				
LIBRARY - NON-UNION & UNION BEFORE 7/1/95	X				X			5/10	#				
LIBRARY-NON-UNION & UNION AFTER 7/1/95	X				X			5/10	#				
LIBRARY-NON-UNION & UNION AFTER 1/1/98	X				X			5/10	#				
L;IBRARY NON-UNION DIRECTORS BEFORE 6/1/200	X				X	2/10			#				
LIBRARY NON-UNION DIRECTORS AFTER 6/1/2004	X				X	2/10			#				
WATER & WASTE - AFSCME <8 YRS ON 1/1/06			X	X		X					X		
WATER & WASTE - AFSCME >8 YRS ON 1/1/06			X	X		X					X		
WATER & WASTE - AFSCME HIRED AFTER 1/1/06			X	X			3/5				X		
WATER & WASTE -NON UNION < 8 YRS 3/31/2006			X	X		X					X		
WATER & WASTE - NON-UNION >8 YRS ON 3/31/06			X	X		X					X		
WATER & WASTE NON-UNION HIRED 1/1/2006			X	X			3/5				X		
MT. MORRIS -FOP AND FOP SUPERVISORS			X		X		X			#			
MT. MORRIS -NON UNION			X		X		X			#			
MT. MORRIS LOCAL 1918			X		X		X						
ROAD EXEMPT			X		X		X			X			
ROAD SUPERVISORS HIRED BEFORE 7/9/2002			X		X		X					X	
ROAD SUPERVISOR HIRED ON OR AFTER 7/9/2002			X		X		X					X	
ROAD SEIU 517M HIRED BEFORE 7/9/2002			X		X		X					X	
ROAD SEIU 517M HIRED ON OR AFTER 7/9/2002			X		X		X					X	
ROAD AFSCME 496 HIRED BEFORE 7/1/2004			X		X		X						
ROAD AFSCME 496 HIRED AFTER 7/1/2004			X	X			X						

	BENEFIT ELIGIBILITY AGE / SERVICE												EMPLOYEE CONTRIBUTION RATES								
	00/20 60/08	00/22 60/08	00/23 60/08	00/23 60/10	00/23 60/15	00/25 60/08	00/25 60/15	00/25 60/12	2.3/ 1.0	2.4 / 1.0	2.4 (ALL)	2.5 (ALL)	0.5	1.0	2.0	3.0	3.5	4.0	5.0	6.0	6.5
GENERAL COUNTY - BEFORE 1/1/88			X								X		X								
GENERAL COUNTY - AFTER 1/1/88			X								X		X								
GENERAL COUNTY - AFTER 7/1/96 (496 ONLY)			X								X								X		
SHERIFF LOCAL POAM DEPUTIES - BEFORE 1/1/88	X											X			X						
SHERIFF LOCAL POAM DEPUTIES - AFTER 1/1/88	X											X			X						
SHERIFF LOCAL POAM DEPUTIES - AFTER 1/1/00					X							X									X
SHERIFF LOCAL 916 F&G LTS./SGTS. - BEFORE 1/1/88	X											X	X								
SHERIFF LOCAL 916 F&G LTS./SGTS. - AFTER 1/1/88	X											X	X								
SHERIFF LOCAL 916 F&G LTS./SGTS - AFTER 1/1/99					X							X	X								
MENTAL HEALTH NON UNION - BEFORE 2/9/89			X							X									X		
MENTAL HEALTH NON UNION - AFTER 2/9/89			X							X									X		
MENTAL HEALTH TEAMSTERS - BEFORE 2/9/89			X							X									X		
MENTAL HEALTH TEAMSTERS - AFTER 2/9/89			X							X									X		
MENTAL HEALTH AFSCME - BEFORE 2/9/89			X							X									X		
MENTAL HEALTH AFSCME - AFTER 2/9/89			X							X									X		
MENTAL HEALTH PROGRAM CHIEFS			X							X									X		
LIBRARY - NON-UNION & UNION BEFORE 7/1/95						X			X				X								
LIBRARY-NON-UNION & UNION AFTER 7/1/95								X	X				X								
LIBRARY-NON-UNION & UNION AFTER 1/1/98								X	X					X							
L;IBRARY NON-UNION DIRECTORS BEFORE 6/1/200								X	X				X								
LIBRARY NON-UNION DIRECTORS AFTER 6/1/2004								X	X										X		
WATER & WASTE - AFSCME <8 YRS ON 1/1/06				X							X					X					
WATER & WASTE - AFSCME >8 YRS ON 1/1/06				X							X								X		
WATER & WASTE - AFSCME HIRED AFTER 1/1/06				55/23						X									X		
WATER & WASTE -NON UNION < 8 YRS 3/31/2006				X							X					X					
WATER & WASTE - NON-UNION >8 YRS ON 3/31/06				X							X								X		
WATER & WASTE NON-UNION HIRED 1/1/2006				55/23						X									X		
MT. MORRIS -FOP AND FOP SUPERVISORS		X										X							X		
MT. MORRIS -NON UNION						X						X							X		
MT. MORRIS LOCAL 1918		X										X							X		
ROAD EXEMPT						X **														X	
ROAD SUPERVISORS HIRED BEFORE 7/9/2002						X					X				X						
ROAD SUPERVISOR HIRED ON OR AFTER 7/9/2002							X				X				X						
ROAD SEIU 517M HIRED BEFORE 7/9/2002						X **					X							X			
ROAD SEIU 517M HIRED ON OR AFTER 7/9/2002							X **				X							X			
ROAD AFSCME 496 HIRED BEFORE 7/1/2004			X***								X					X					
ROAD AFSCME 496 HIRED AFTER 7/1/2004					X***						X					X					

* Unique blend of age/service
** Reduced early retirement available age 55-60 with 8 or 15 years credited service
*** Reduced early retirement available age 58 with 8 years credited service if hired prior to 7/1/2004; 58 with 15 years credited service if hired after 7/1/2004
**** For post 3/1997 employees, rate drops to 3.0% after 5 years of employment and 2.0% after 6 years of employment.

\# Increases are based on C.P.I. up to stated maximum

NOTE: DEFERRED - Benefits are as of "last" day worked

II. FINANCIAL SECTION

The Financial Section Contains:

- Management’s Statement of Responsibility
- Auditor’s Report
- Management’s Discussion and Analysis
- Audited Financial Statements
- Notes to Financial Statements
- Supplemental Data

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following financial statements and related notes of the Genesee County Employees' Retirement System were prepared by management in accordance with generally accepted accounting principals. The Board of Commissioners through the Audit Subcommittee of the Finance Committee (composed of Commissioners) is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements.

Management is responsible for the integrity and objectivity of the financial statements that are presented in accordance with generally accepted methods of accounting. Established accounting procedures are designed to provide books, records, and accounts that fairly reflect the transactions of the System.

The training of qualified personnel and the assignment of duties are intended to provide good internal controls. This provides reasonable assurances that transactions are executed in accordance with management's authorization and that adequate accountability of System assets is maintained.

Plante & Moran, PLLC, independent public accountants, with direct access to the Retirement Commission, have examined the financial statements prepared by the System and their report follows.

plante moran

Plante & Moran, PLLC
Suite 1A
111 E. Court St.
Flint, MI 48502
Tel: 810.767.5350
Fax: 810.767.8150
plantemoran.com

Independent Auditor's Report

To the Board of
Genesee County Employees' Retirement System

We have audited the accompanying statement of plan net assets of the Genesee County Employees' Retirement System (the "System") as of December 31, 2006 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 position of the Genesee County Employees' Retirement System as of December 31, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (presented in Tables 1 – 4 within the Financial Section) are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 11, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED December 31, 2006

As the administrators of the Genesee County Employees' Retirement System, the Genesee County Retirement Commission and its management offer readers of the System's Annual Report and incorporated financial statements this narrative overview and analysis of the financial activities of the system.

Financial Highlights

- The Retirement system's net assets held in trust for pension benefits increased $36,277,205; from $463,666,796 at December 31, 2005, to $499,944,001 at December 31, 2006; mainly as a result of gains in the market value of assets.

- During the year, deductions representing the cost of all benefits, services and operations borne by the system totaled $34,277,488. The allocation of this cost was 84.59% for retiree pension benefits, 7.84% for investment related fees, 0.80% for employee withdrawal of contributions, 5.39% for transfers to a Defined Contribution Plan and 1.38% for administrative expenses.

- During the year, additions representing employer and employee contributions and investment income received by the system totaled $70,554,693. The source of this revenue was 17.69% in employer contributions, 3.26% in employee contributions and 79.05% in realized and unrealized investment income. Total additions exceeded total deductions by $36,277,205. This compares to last year's net increase in assets held in trust for pension benefits of $14,412,718.

Using This Annual Report

This annual report consists of the financial statements, notes to the financial statements and required supplementary information for the Genesee County Employees' Retirement System. The financial statements, related note disclosures and supplementary tables provide financial information about assets held in trust for six separate employer's pension plans.

Overview of the Financial Statements

The Statement of Plan Net Assets (on page 17) and the Statement of Changes in Plan Net Assets (on page 18) report the retirement system's net assets and the changes in them. You can think of the retirement system's net assets – the difference between assets and liabilities – as one way to measure the system's financial health or financial position. Over time, increases or decreases in the system's net assets are one indicator of whether its financial health in improving or deteriorating. You will also need to consider other non-financial factors; such as favorable or unfavorable economic and demographic actuarial experience, as well as actuarial funding progress and current funded status in order to assess the overall health of the system.

Genesee County is the trustee, or fiduciary, for its own and five other separate employer's pension plans. Fiduciary funds are used to account for resources held in trust for the benefit of parties outside the government. The retirement system's assets are held in trust for the sole purpose of the fund, its participants and beneficiaries. Fiduciary funds are not reflected in Genesee County's government-wide financial statement because the resources of those funds are not available to support Genesee County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found in the Accounting System's and Reports Section of this Annual Report.

A comparison of plan net assets and the changes in plan assets from 2005 to 2006 is contained in the following tables:

Plan Net Assets
(in Thousands)

	Pension Trust Fund 12/31	
	2006	2005
Cash, Short-Term Cash Investments and Receivables	$ 9,582	$ 6,319
Investments, at Fair Value	490,886	457,678
Total Assets	500,468	463,997
Other Liabilities	524	331
Total Liabilities	524	331
Total Net Assets Held in Trust for Pension Benefits	$499,944	$463,666

Changes in Plan Net Assets
(in Thousands)

	Pension Trust Fund 12/31	
	2006	2005
Net Investment Income	$ 53,090	$ 31,063
Contributions:		
Employee	2,296	2,145
Employer	12,482	10,788
Total Contributions	14,778	12,933
Benefits Paid to Retirees and Beneficiaries	28,995	27,627
Refunds to Terminated Employees	273	170
Other Expenses	2,323	1,786
Net Increase in Net Assets	$ 36,277	$ 14,413

The reason for the increase in the plan net assets for 2006 was due to the improved investment market which provided a net appreciation in the fair value of investment of $51.4 million. In 2005, the plan reported a $26.4 million appreciation in fair value of investments.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes can be found in Notes A through F of this Annual report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary funding and actuarial information. The information can be found in the Supplemental Data Section of this report.

Economic Factors and Next Year's Employer Contribution Rates

The Retirement System experience during the year ended December 31, 2006 was more favorable than expected based on long-term assumptions. The recognized rate of investment return based on the smoothed funding value of assets was greater than the assumed rate (12.23% vs. 8.00%)

Established employer contribution rates for January 1, 2007 to December 31, 2007 are computed to be General and Sheriff's 24.28%, Water and Waste 17.58%, District Library 12.68%, Community Mental Health 12.80%, Road Commission 18.18%, and Mt. Morris 18.76%.

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS – December 31, 2006

ASSETS:	
Cash and Short-Term Cash Investments	$ 8,712,574
Receivables:	
Contributions Receivable	$ 79,213
Accrued Interest and Dividends	782,108
Other	7,889
Total Receivables	$ 869,210
Investments, at fair value:	
U.S. Government Securities	$ 18,779,068
Foreign Govts. and Agencies	85,027,385
Corporate Bonds	58,116,996
Common Stock	102,685,045
Preferred Stock	8,605,571
Mutual Funds	173,893,584
Real Estate	25,779,039
Total Investments	$ 490,886,688
Total Assets	$ 500,468,472
LIABILITIES:	
Accounts Payable	$ 524,471
Total Liabilities	$ 524,471
Net Assets held in Trust for Pension Benefits (A schedule of funding progress is presented on Page 26)	$ 499,944,001

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

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED – December 31, 2006

ADDITIONS:	
Contributions	
Employee Contributions	$ 2,295,979
Employer Contributions	12,482,409
Total Contributions	$ 14,778,388
Investment Income	
Net Appreciation in Fair Value of Investments	$ 51,374,725
Interest on U.S. Government Securities	585,488
Interest on Corporate Bonds	2,168,463
Dividend Income	1,647,629
	$ 55,776,305
Less Investment Expense	2,686,748
Net Investment Income	$ 53,089,557
Total Additions	$ 67,867,945
DEDUCTIONS:	
Benefits Paid to Retirees and Beneficiaries	$ 28,994,941
Refunds to Terminated Employees	273,168
Administrative Expenses	475,979
Rollover to Other Pension Plan	1,846,652
Total Deductions	$ 31,590,740
Net Increase	$ 36,277,205
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	$ 463,666,796
End of Year	$ 499,944,001

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

Note A – Plan Description, Provisions, and Reporting Entity:

The Genesee County Employees' Retirement System (also known as GCERS) is a contributory agent multiple-employer defined benefit pension plan. The GCERS's current-year payroll for all covered employees was $70,204,587.

The plan covers most employees who are paid by a GCERS employer more than 50% of all compensation received by them for personal services, unless they are a member of the defined contribution plan. Exemptions to the 50% rule include the County Board of Commissioners, Judges and County Juvenile Officers who are paid partially by the County and partially by the State. All new-hire General County employees may only join the defined contribution plan. Current membership in the GCERS is comprised of the following:

Group	December 31, 2006
Retirees and beneficiaries Currently receiving benefits	1,395
Vested terminated employees	108
Active employees:	
Fully vested	447
Non-vested	899

The GCERS was organized pursuant to Section 12a ACT #156, Public Acts of 1851 (MSA 5.333(I); MCLA 46.12a as amended, State of Michigan. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the System in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the Genesee County Board of Commissioners and the State Pension Plan Committee, during its existence.

Eligible employees are members of GCERS after 520 hours of service and are required to deposit from 0.50% to 6.5% of all monetary compensation, including overtime. Deposits are accumulated in individual accounts for each member remaining in service. If a member leaves service, he may withdraw his accumulated contribution together with the interest credited to his account. All employers allow members with eight years of service to elect a deferred annuity providing a lifetime benefit. Four employers have a fifteen year service provision for the deferred annuity for new employees, each with a different effective date. The requirements for regular retirement varies by bargaining group from a 20 to 25 year anniversary date of employment; or age 60 with a minimum of 8 to 15 years of service. Full retirement benefits vary by bargaining unit. Benefit computations also vary, but generally are computed at final average compensation times the sum of 2.0-2.5% for the first 25 years of service, plus 1% for years of service in excess of 25 years. (NOTE: Some contracts allow 2.4% or 2.5% for all years of service.)

The GCERS employers are required by the Retirement System Ordinance to make adequate contributions to fund the retirement allowances provided by the System. The contribution rates are determined by an annual actuarial valuation based on certain assumptions along with consideration of members' contributions and assumed investment income.

Reporting entity – The financial statements of the System are also included in the financial statements of Genesee County as a Pension Trust Fund.

Note B – Summary of Significant Accounting Policies and Plan Asset Matters:

The pension fund financial statements are reflected on the accrual basis of accounting; revenues are recorded when earned and expenses are recorded as incurred. Employer and employee contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable. Genesee County is following GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The Genesee County Employees' Retirement System implemented GASB No. 34 as of December 31, 2003.

The System's investment assets, which are trusteed by Comerica of Detroit, are stated at fair value (as prescribed by the Michigan Public Employee Retirement Act) as determined and certified by the Trustee. Short-term investments are reported at cost, which approximates fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

The plan held no investment in any one organization that represented 5 percent or more of net assets available for benefits.

There were no loans outstanding to GCERS employers at December 31, 2006. Retirement investments are subject to a number of restrictions as to the type, quality and concentration of investments made, including limiting common stock to no more than 70% (market) of the portfolio and foreign equities to 20% of the portfolio as stated in Public Act 307 of 2000; the Amendments to Public Act 314 of 1965.

Note C – Deposits and Investments:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entitles, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the System had $8,112,266 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution only; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities. At year end, the average maturities of investments broken down by years are as follows:

	Fair Value	Less than 5	5 – 15	>15
Asset Backed	$ 439,868	$ 242,956	$ 72,517	$ 124,395
Corporate Variable	2,163,263	764,784	-	1,398,479
Corporate – CMO	4,289,885	-	-	4,289,885
Corporate – Fixed	15,690,819	7,204,904	4,979,248	3,506,667
Foreign Corporate	2,851,026	813,041	1,267,634	770,351
Foreign Government	377,779	-	36,036	341,742

Interest Rate Risk (continued)

	Fair Value	Less than 5	5 – 15	>15
Foreign Govt – CMO	$ 756,987	$ 75,525	$ 231,146	$ 450,316
FHLMC	7,843	5,609	-	2,234
GNMA I Pools	16,560	-	-	16,560
GNMA II Pools	20,215	-	-	20,215
Inflation Index	5,926,993	2,502,276	502,736	2,921,981
Private Placement – Fixed	1,935,330	986,777	857,839	90,714
Private Placement – Variable	1,212,396	-	1,012,625	199,770
US Fed Agency Fixed	3,860,871	2,397,974	1,108,217	354,680
US Fed Agency Disc Notes	156,096	156,096	-	-
US Govt Obligations - Bonds	1,418,867	20,034	-	1,398,833
US Govt Obligations – Notes	2,324,750	1,625,514	699,236	-
Convertible Bonds	36,680,559	2,478,550	7,419,125	26,782,884

Credit Risk

State law does not limit investments in commercial paper for pension plans to certain quality ratings. Additionally, the System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

Investment and S&P Rating	Fair Value	Investment and S&P Rating	Fair Value
Asset Backed – A	$ 242,956	Corporate – Variable – A+	$ 98,009
Asset Backed – AAA	196,911	Corporate – Variable – BBB-	240,979
Corporate – CMO – AAA	2,951,559	Corporate – Variable – BBB+	1,300,467
Corporate – CMO – N/R	1,338,325	Corporate – Variable – N/R	382,649
Corporate – Fixed – A	1,574,656	FHLMC Pools – N/R	7,844
Corporate – Fixed – A-	527,579	Foreign Corporate - A-	702,905
Corporate – Fixed – A+	1,023,906	Foreign Corporate-BBB	358,872
Corporate – Fixed – AA	431,862	Foreign Corporate-BBB-	226,922
Corporate – Fixed – AA-	1,272,552	Foreign Corporate-BBB+	1,302,711
Corporate – Fixed – AAA	566,149	Foreign Corporate – N/R	259,615
Corporate – Fixed – B	1,950,844	Foreign Govt-BBB	377,779
Corporate – Fixed – B-	64,503	Government – CMO – N/R	756,987
Corporate – Fixed – B+	254,297	GNMA I Pools – N/R	16,560
Corporate – Fixed – BB-	332,000	GNMA II Pools – N/R	20,215
Corporate – Fixed – BB+	1,999,819	Inflation Index – AAA	79,597
Corporate – Fixed – BBB	1,943,831	Inflation Index – N/R	5,847,397
Corporate – Fixed – BBB-	2,037,199	Private Placement – Fixed – A-	195,094
Corporate – Fixed – BBB+	1,608,989	Private Placement – Fixed – AAA	39,816
Corporate – Fixed – CCC-	380	Private Placement – Fixed – BB-	246,838
Corporate – Fixed – CCC+	92,400	Private Placement – Fixed – BB+	212,750
Corporate – Fixed – N/R	9,852	Private Placement – Fixed – BBB	241,680
Corporate – Variable – A-	141,156	Private Placement – Fixed – BBB-	90,714

Credit Risk (continued)

Investment and S&P Rating	Fair Value	Investment and S&P Rating	Fair Value
Private Placement – Fixed – BBB+	97,040	Convertible Bonds-A	4,609,669
Private Placement - Fixed – N/R	811,398	Convertible Bonds-A-	5,133,000
Private Placement - Var-AAA	503,225	Convertible Bonds-A+	5,100,715
Private Placements – Var-BBB-	533,668	Convertible Bonds-AA-	954,000
Private Placements – Var-BBB+	175,503	Convertible Bonds-AAA	476,438
Federal Agencies-AAA	3,860,870	Convertible Bonds-BB+	887,250
US Fed Agency Disc Notes – N/R	156,096	Convertible Bonds-BBB	5,451,625
US Government – Bonds – AAA	1,418,866	Convertible Bonds-BBB-	3,555,038
US Government – Notes – AAA	1,774,530	Convertible Bonds – BBB+	2,841,250
US Government – Notes – N/R	550,220	Convertible Bonds-CCC+	192,375
		Convertible Bonds-N/R	7,479,200

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Retirement System does not restrict the amount of investments in foreign currency. The following securities are subject to foreign currency risk:

Australian Dollar	245,714
British Pound	5,358,550
Canadian Dollar	566,006
Danish Krone	62,551
Euro Currency	23,863,177
Hong Kong Dollar	1,228,940
Japanese Yen	14, 411,901
Malaysian Ringgit	285,040
Mexican Peso	1,101,955
New Zealand Dollar	433,290
Singapore Dollar	1,337,894
South Korean Won	8,368,727
Swiss Franc	7,312,294
	64,576,039

The categorization by investment type is not available.

Note D – Contributions Required and Contributions Made:

The GCERS's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, which are designed to accumulate sufficient assets to pay benefits when due. The System has received the required employer contributions for the year covered in the Summary Annual Report. Employee contributions range from 0.50%-6.50% of annual compensation and the remaining required contributions are paid by the employer. The normal cost is determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities were amortized as a level percent-of-payroll over 20 years in all employers, and added to the computed normal costs. Administrative costs are financed via investment earnings and employer contributions.

Required 10-year historical trend information can be found immediately following the notes to the financial statements. These tables provide information about progress made in accumulating sufficient assets to pay benefits when due.

Note E – Post retirement Benefits Contributions:

Each employer pays directly to the group providers for their retirants' health and life insurance, with some including dental and optical, through General Fund appropriations.

Note F – Reserves:

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2006, the System's reserves have been fully funded as follows:

Reserved for employee contributions	$ 25,236,246
Reserved for retired employees	279,395,076

SUPPLEMENTAL DATA

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

TABLE 1

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a % of Covered Payroll ((b-a)/c)
1997*	331,951,654	324,881,879	(7,069.775)	102.2	61,107,881	(11.57)
1998*	380,089,212	343,751,589	(36,337,623)	110.6	62,420,613	(58.23)
1999*	418,744,721	369,605,820	(49,138,901)	113.3	64,378,394	(76.33)
2000*	432,631,400	399,583,345	(33,048,055)	108.3	63,780,949	(51.81)
2001*	425,846,925	403,158,551	(22,688,374)	105.6	65,746,943	(34.50)
2002*	414,125,511	423,009,102	8,883,591	97.9	68,666.690	12.94
2003*	405,218,225	433,147,789	27,929,564	93.6	70,142,749	39.82
2004*	404,492,706	458,068,584	53,575,878	88.3	71,273,973	75.17
2005*	412,739,184	467,582,019	54,842,426	88.3	70,433,450	77.86
2006*	445,962,298	490,334,814	44,372,516	91.0	70,204,587	63.20

**After changes in actuarial assumptions and/or benefit changes*

TABLE 2

Schedule of Employer Contributions

Fiscal Year December 31	Valuation Date December 31	Contribution Rates[1] [2] As Percents of Valuation Payroll	Annual Required Contribution	Percentage Contribution
1997	1995	14.98	$ 9,502,102	100%
1998	1996	14.56	$ 8,790,633	100%
1999	1997	12.64	$ 8,030,107	100%
2000	1998	7.25	$ 4,735,018	100%
2001	1999	9.22	$ 4,311,457	100%
2002	2000	9.55	$ 6,016,181	100%
2003	2001	9.55	$ 6,448,412	100%
2004	2002	14.82	$ 9,088,458	100%
2005	2003	16.01	$10,787,720	100%
2006	2004	18.45	$12,482,410	100%

[1] *Net of amortization credit for assets in excess of accrued liabilities.*

[2] *Average contribution rate for all six employers within GCERS.*

TABLE 3

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

Valuation date:	December 31, 2006
Actuarial Cost Method:	Individual Entry Age
Amortization Method	Level percent-of-payroll
Remaining amortization period for unfunded actuarial accrued liability	20 years
Remaining amortization period for credit	10 years
Asset valuation method	4 year smoothed market
Actuarial assumption:	
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5%
Post Retirement adjustments	Yes, depending on Bargaining Unit

TABLE 4

The following table is a ten-year analysis of additions by source and deductions by type for GCERS**.**

Fiscal Year Dec 31	Employer Contributions	Employee Contributions	Investment Income (Loss)	Benefit Payments	Admin. Expenses	Refunds of Employee Contributions
1997	9,502,102	3,104,472	69,130,654 [1]	16,644,656	330,878 [a]	205,229
1998	8,790,633	2,243,330	32,878,957 [2]	18,008,944	337,638 [a]	145,992
1999	8,030,107	2,412,717	51,117,399 [3]	19,292,089	700,325 [a]	107,117
2000	4,735,018	2,615,818	8,816,574 [4]	21,024,197	346,790 [a]	250,514
2001	4,311,457	2,042,221	(6,530,016) [5]	22,909,501	326,947 [a]	161,978
2002	6,016,181	2,076,429	(36,568,322) [6]	23,643,413	342,825 [a]	284,130
2003	6,448,412	2,263,639	76,459,629 [7]	24,610,139	377,858 [a]	300,685
2004	9,088,459	2,148,473	37,474,631 [8]	25,909,403	382,311 [a]	410,930
2005	10,787,720	2,145,417	31,062,720 [9]	27,626,671	415,778 [a]	169,994
2006	12,482,410	2,295,981	53,089,557 [10]	28,994,941	475,979 [a]	273,168

[1] Includes net depreciation in fair value of investments of $2,521,430.
[2] Includes net depreciation in fair value of investments of $23,938,979.
[3] Includes net appreciation in fair value of investments of $21,919,831.
[4] Includes net depreciation in fair value of investments of $25,521,562.
[5] Includes net depreciation in fair value of investments of $13,100,598.
[6] Includes net depreciation in fair value of investments of $26,575,020.
[7] Includes net appreciation in fair value of investments of $68,174,647.
[8] Includes net appreciation in fair value of investments of $30,045,812.
[9] Includes net appreciation in fair value of investments of $26,384,710
[10] Includes net appreciation in fair value of investments of $51,374,725

(a) GASB 25 requires investment fees to be netted against investment income for years beginning after December 31, 1996.

III. INVESTMENT SECTION

The Investment Section Contains:

- Investment Goal
- Investment Policy
- Investment Portfolio Distribution
- Return on Investment
- Investment Performance

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT POLICY

GOAL

The objective of the Genesee County Employees' Retirement System is to provide present and future retirement or survivor benefits for its members. To achieve this goal, the Fund targets an average, annual return of 8.0% over periods greater than five years. Achievement of this target return will likely ensure the System's ability to pay benefits and result in stable contribution rates.

INVESTMENT POLICY

The fund is long-term in nature and the selection of investments is regulated by (1) statutory limitations, (2) limits of acceptable risk and (3) the objective of a maximized total rate of return.

Investment decision shall be made within the framework of the goal established for the rate of return, limits of acceptable risk and fund objectives. At any point in time, certain types of investments have greater relative attractiveness than others. To maximize the realized rate of return, it is necessary to determine the relative values ascribed to differing types of investments within a given investment environment.

The System believes that individual holdings should stand alone on merit as well as complement the entire group of holdings.

Diversification shall be considered as part of the effort to minimize liquidity risks, maximize total rate of return and limit exposure to unanticipated business risks. Since the portfolio is long-term in nature and is constructed to avoid the necessity of liquidating holdings to meet benefit payments, liquidity is not a first consideration; however, every reasonable effort will be made to provide protection for the portfolio in future deteriorating markets.

No holding will be considered a "permanent" part of the portfolio. Any security can be sold at any time either to maximize gains or to minimize losses. The portfolio shall be continuously monitored in order to identify such instruments as overvalued stocks or low yield bonds in order to take appropriate action.

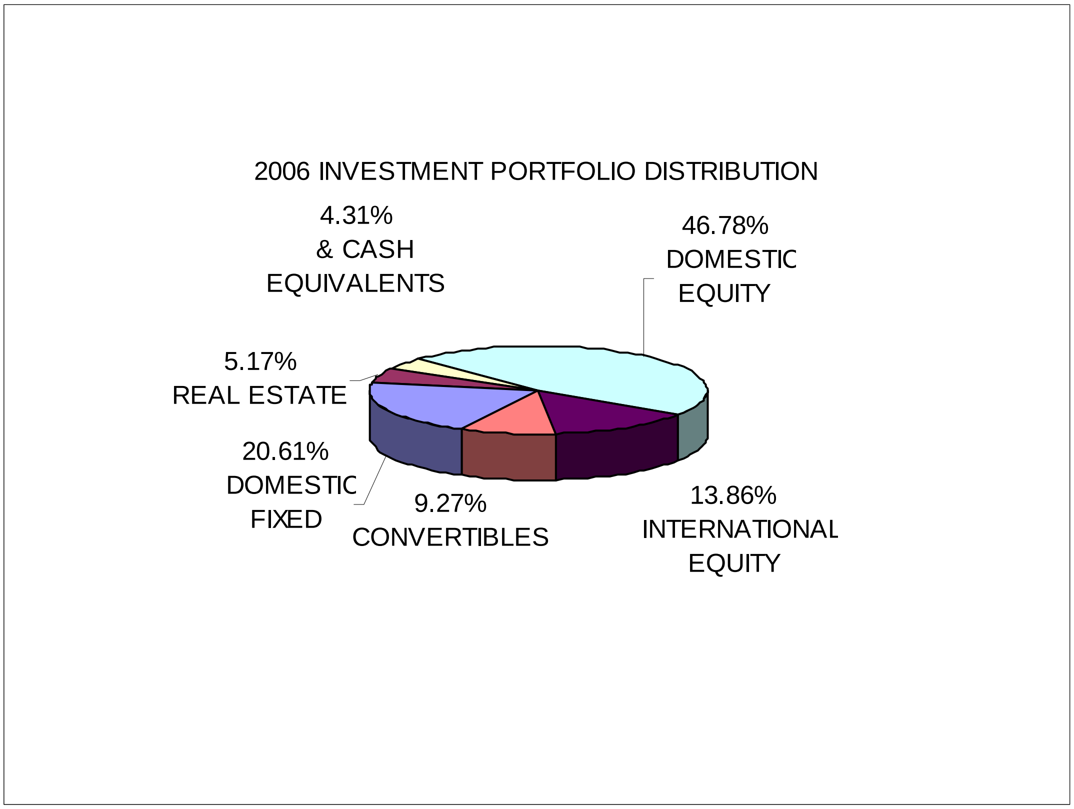
In making decisions, the Commission shall avail itself of the highest caliber advice obtainable, both internally and externally. The Commission has retained the services of a professional investment consultant to monitor investments, returns, and peer performance of the investment managers. Investment managers are hired to invest the System's assets on a daily basis in a variety of asset classes to maximize returns at a lower overall risk to the plan.

The Governmental Accounting Standards Board Statement Number 5 will be followed in accounting for the portfolio. Securities will be recorded at market values and will be reported to the Commission monthly. The firm engaged for the annual audit shall be consulted when questions concerning accounting procedures arise.

A quarterly evaluation of the System's portfolio will be conducted to monitor the investment performance by each of the Investment Managers. In addition, the annual external audit and the annual actuarial valuations shall be reviewed in conjunction with the evaluation of investment performance. All evaluations will be related to the Commission's stated goals. Because these goals are long-term, cumulative performance results will be considered as more important than performance in any single year.

INVESTMENT PORTFOLIO DISTRIBUTION

The State of Michigan charges the Retirement Commission with the responsibility of investing the System's portfolio in a prudent manner and in a fiduciary capacity. On December 31, 2006, the market value of the portfolio distribution of investments was as follows: 46.78% in domestic equities, 13.86% in international equities, 20.61% in various fixed income securities, 9.27% in convertibles, 5.17% in real estate, and 4.31% in cash and equivalents (receivables and accruals).



RETURN ON INVESTMENT

The return on investments, which is defined as the income plus or minus the appreciation or depreciation in value, is analyzed each quarter. The Genesee County Employees' Retirement System's investment performance is compared with the results within a universe of other public funds.

- Total return for 2006 of 12.22% ranks in the 43rd percentile among public funds.

- The three and five year total returns of 9.75% and 8.08% respectively, rank 35th and 39th percentiles among all public funds. (Statistics according to Asset Strategies Portfolio Services' December 31, 2006 Investment Performance Analysis)

- The following expenses were paid by soft dollars totaling $296,339 (of which $67,986 was recaptured).

  - Execution of securities trading
  - Investment Research

INVESTMENT PERFORMANCE ANALYSIS

The investment performance of the System is continually monitored through the use of a number of different methods. The performance of the domestic equity, international equity, fixed income, and real estate portfolios is monitored by a highly respected portfolio evaluation service and consultant in the United States.

A summary of the Genesee County Employees' Retirement System's performance results, along with a brief description of issues to be considered in interpreting the results follow. Since the purpose of the summary is to provide an overview, the reader is cautioned against forming conclusions that may be premature.

The Genesee County Employee's Retirement System Report is provided as a profile of the System's performance. The reader may note that the yields of the audited financial statements will vary from the rates of return presented in this section. The variation is attributable to asset appreciation being included in the determination of rates of return, whereas only dividends and interest are used to determine yields in the Financial Section.

Total Cumulative Annual Rate of Return:

This shows how the Genesee County Employees' Retirement System performed over multi-year periods compared with other public plan funds. The System's return is tabulated along with a segmentation of the group's results. Percent rank indicates what proportion of the group outperformed the System; a low percent indicates a relatively higher return. The reader can choose a time period of particular interest and examine the return the Genesee County Employees' Retirement System earned for that period. In the past, a market cycle has generally covered a four-year period. For any time period one chooses to examine, the median serves as an effective standard for determining what a "reasonable" return for that period would have been. (The median is that return that outranked 50 percent of the funds in the group and that was outranked by 50 percent of the funds).

This summary should be regarded only as an introduction to evaluating the Genesee County Employees' Retirement System's investment performance results. Nevertheless, it is hoped that this brief overview will be of some assistance.

IV. ACTUARIAL PRINCIPLES

The Actuarial Section Contains:

- **Actuarial Principles**
- **Present Actuarial Status**
- **Member Statistics**

Promises Made, and Eventually Paid – As each year is completed, the Genesee County Employees' Retirement System in effect hands an "IOU" to each member then acquiring a year of service credit – the "IOU" says: "The Genesee County Employees' Retirement System owes you a retirement benefit, payments to be made in cash commencing when you qualify for retirement."

The principal related financial question is: "When shall the money required to cover the "IOU" be contributed?"

The year when the benefit of the member's service is received, or some future year when the "IOU" becomes a cash demand.

The Constitution of the State of Michigan is directed to the question:

"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."

The majority of public employers meet this constitutional requirement by level percent-of-payroll contributions.

Translated into actuarial terminology, a level percent-of-payroll contribution objective means that the contribution rate must be at least:

Normal Cost – (the present value of benefits likely to be paid on account of members' service being rendered in the current year).

…PLUS

The Financing of Unfunded Actuarial Accrued Liabilities – (unfunded actuarial accrued liabilities are the difference between (1) the actuarial accrued liability, and (2) the valuation assets of the retirement program).

A byproduct of a level percent-of-payroll contribution objective is the accumulation on invested assets of varying periods of time. Invested assets are a byproduct of level percent-of-payroll contributions, not the objective. Investment income becomes the third major contributor to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

If contributions to the retirement program are less than the preceding amount, the difference plus investment earnings not realized thereon, will have to be contributed at some later time or benefits will have to be reduced to satisfy the fundamental fiscal equation under which all retirement programs must operate; that is;

The aggregate amount of benefit payments to any group of members and their beneficiaries cannot exceed the sum of:

The aggregate amount of contributions received on behalf of the group

…PLUS

Investment earnings on contributions received and not required for immediate cash payments of benefits

…MINUS

The expenses of operating the program.

There are retirement programs designed to defer the bulk of contributions far into the future. Lured by artificially low present contributions, the inevitable consequence of a relentlessly increasing contribution rate – to a level that may be greatly in excess of the level percent-of-payroll rate – is ignored.

This method of financing is prohibited in Michigan by the State Constitution.

COMPUTED CONTRIBUTION RATE NEED TO FINANCE BENEFTIS

The actuary calculates the contribution requirements and benefit values of the Fund by applying actuarial assumptions to the benefit provisions and people information furnished, using the actuarial cost methods described on the previous page.

The principal areas of financial risk which require assumptions about future experiences are:

a. Long-term rates of investment return to be generated by the assets of the Fund.
b. Rates of mortality among members, retirees, and beneficiaries.
c. Patterns of actual retirements.
d. The age patterns of actual retirements.
e. Rates of withdrawal of active members (without entitlement to a retirement benefit).
f. Rates of disability among members.

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives – a period of time which can be as long as a century.

Actual experience of the Fund will not coincide with assumed experience, regardless of the wisdom of the assumptions, or the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes in account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time it becomes appropriate to modify one or more of the assumptions to reflect experience trends (but not random year to year fluctuations).

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL STATUS

Overall experience of the Retirement System for the year ended December 31, 2006, produced results which were more favorable than expected based on long-term assumptions. The primary source of favorable experience was the recognized rate of investment return based on the smoothed market value of assets. The recognized rate was 12.23%, which exceeded the 8.0% assumed rate. A decrease in the computed employer contribution rates and an increase in the funded ratio reflect the favorable experience.

In all divisions the computed retiree liabilities were greater than the Reserve for Retired Benefit Payments as of December 31, 2006 and transfers were recommended in each division to equal the retired life liabilities as of December 31, 2006.

The ratio of the funding value of accrued assets to accrued liabilities was 91.0%

FUNDING PROGRESS INDICATORS

There is no single all-encompassing indicator that measures a retirement system's funding progress and current funded status.

A traditional measure has been the relationship of valuation assets to actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method. This relationship is as follows:

GCERS Unfunded Actuarial Accrued Liability
As of December 31, 2006
By Divisions
($ in thousands)

	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	Mt. Morris	TOTALS
Actuarial Accrued Liability & Reserves:	$289,481	$42,770	$12,401	$79,032	$61,931	$4,720	$490,335
Assets Allocated to Funding:	$258,301	$37,579	$13,203	$75,763	$57,309	$3,807	$445,962
Unfunded Actuarial Accrued Liability:	$ 31,180	$ 5,192	$ (802)	$ 3,269	$ 4,621	$ 913	$ 44,373
Funded Ratio:	89.2%	86.2%	106.5%	95.8%	92.5%	80.7%	

We believe an understanding of short-term funding progress and status can be achieved using the following indicators:

(1) The ratio of the unfunded actuarial accrued liability to participant payroll. In a soundly financed retirement system, the amount of the unfunded actuarial accrued liability will be controlled and prevented from increasing in the absence of benefit improvements. However, in an inflationary environment is seldom practical to impose this control on dollar amounts that are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ration is expected to decrease over time but the basic trend may be interrupted by benefit improvements.

(2) The ratio of the funding value of assets to the actuarial accrued liability. The ratio is expected to increase over time but the basic trend may be interrupted by benefit improvements.

(3) The actuarial present value of gains or losses realized in the operation of the retirement system. Gains and losses are expected to cancel each other over a period of years but sizable year-to-date fluctuations are common.

Summary of Benefit Provision Changes in December 31, 2006 Valuation

General County:

<u>POAM</u>
Plan is closed to employees hired into the bargaining group on or after 3/1/2006.

Water and Waste:

<u>Non-Union</u>
Current members with more than eight years of credited service on 3/31/2006 contribute 3% of annual compensation; employees with less than 8 years of credited service on 3/31/2006 contribute 5.0% of annual compensation.

Maximum retirement allowance is 85% of the highest base wage year (members retiring between 6/1/2006 and 9/30/2009 may retire under the 75% of the Final Average Compensation maximum or 85% of base wage maximum, whichever provides the larger benefit).

There are additional changes that are effective for new hires. The changes include:

3 Year Final Average Compensation,

10 year vesting,

Early retirement eligibility at age 55 with 10 years of credited service, pension portion reduced 0.5%/month multiplied by the number of months that precedes age 60,

1% multiplier for service in excess of 25 years,

15 year credited service requirement for non-duty disability

December 31, 2006 valuation reflected no changes in assumptions or methods.

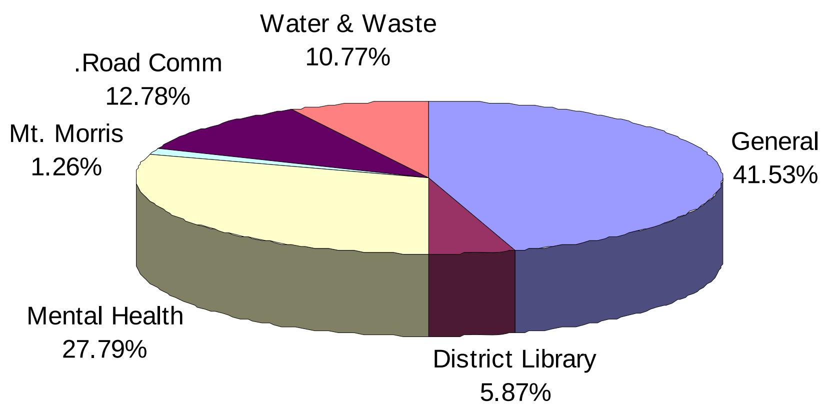
ACTUARIAL CONCLUSION

The accrued condition of the Retirement System is good, subject to continued receipt of recommended contributions.

CERTIFICATION: Rodwan Consulting Company certifies that the December 31, 2006 actuarial valuation has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees, beneficiaries and assets was provided by the County. This data has been reviewed for reasonableness, but no attempt has been made to audit such information. The valuation was based on the provisions of the Retirement System as amended through January 1, 2007. The actuarial assumptions used in this valuation are reasonable related to past experience of the System and represent reasonable expectations of future experience under the System.

GENESEE COUNTY EMPLOYEES' RETIREMENT SYSTEM
MEMBER STATISTICS

GCERS Active Members as of 12/31/06 TOTAL - 1,346



COMPARATIVE SCHEDULE

Valuation Date Dec 31	Total Active Members	Valuation Payroll*	Average Age	Average Service	Average Annual Pay	% Increase
1991	1,572	53,167	41.6	10.0	33,822	5.1
1992	1,656	57,807	41.4	9.4	34.098	3.2
1993	1,736	60,516	41.5	9.0	34,860	(0.1)
1994	1,783	65,137	42.0	9.3	36,532	4.8
1995	1,821	69,200	42.2	9.6	38,001	4.0
1996	1,661	65,206	42.5	10.0	39,257	3.3
1997	1,496	61,108	42.6	10.1	40,848	4.1
1998	1,502	62,421	42.8	10.4	41,558	1.7
1999	1,521	64,378	42.7	9.9	42,326	1.8
2000	1,474	63,781	42.8	10.4	43,271	2.2
2001	1,447	65,765	42.8	10.2	45,449	4.8
2002	1,481	68,667	43.5	10.2	46,365	2.0
2003	1,450	70,143	43.7	10.6	48,374	4.3
2004	1,395	71,274	43.8	10.8	51,092	5.3
2005	1,399	70,433	44.1	10.8	50,346	(1.5)
2006	1,346	70,205	44.6	11.2	52,115	3.5

***in thousands*

EMPLOYER COMPUTED CONTRIBUTIONS-COMPARABLE SCHEDULE

Valuation Date Dec.	General & Sheriffs	Water & Waste	District Library	Mental Health	Road Commission	City of Mt. Morris	Valuation Payroll*	Dollar Contributions*
1970	6.91				8.75	9.13	12,470	1,886
1975	9.10				8.91	7.65	25,206	2,238
1980	11.34			4.09	12.30	5.30	37,400	4,012
1984	9.59	7.05	9.33	3.04	9.97	6.74	41,454	3,534
1985 (a)	8.01	6.37	7.91	7.03	10.24	4.90	44,068	3,795
1986	6.04	4.99	7.22	6.54	9.63	4.34	46,136	3,231
1987 (a)	11.40	4.79	5.72	6.44	9.07	3.35	50,282	5,235
1988 (a)	12.51	2.32	4.67	10.43	9.12	2.72	50,342	5,882
1989 (a)	15.66	0.45	4.42	9.14	6.54	1.24	50,694	6,631
1990 (a)	16.21	6.82	4.15	9.12	9.31	1.62	53,332	7,463
1991	17.03	6.19	8.27	8.97	15.98	0.58	53,167	9.448
1992	21.09	7.98	6.63	9.41	19.89	0.62	57,807	10,410
1993	23.34	13.41	6.36	10.67	19.91	0.23	60,516	10,614
1994	22.53	14.19	4.50	10.34	20.66	0.23	65,137	12,549
1995	18.44	9.99	.69	7.17	23.34	0.00	69,200	12,397
1996	20.19	3.22***	0.00	4.69	26.04	3.78	66,206	11,996
1997	17.32	10.88	0.00	5.68	19.33	3.76	61,108	9,502
1998	11.09	4.14	0.00	1.89	13.78	0.00	62,421	8,791
1999	10.29	2.08	0.00	1.20	10.95	0.00	64,378	8,030
2000	10.70	3.02	0.00	8.97	12.02	0.00	63,781	4,735
2001	10.39	4.71	0.00	8.09	16.93	5.22	65,765	4,311
2002	15.52***	14.00***	0.56***	9.44***	16.42***	11.56***	68,667	6,016
2003	19.27	15.94	5.40	11.47	18.19	14.96	70,143	6,448
2004	22.31	17.11	8.95	13.61	19.57	18.47	71,274	9,088
2005	24.28	17.58	12.68	12.80	18.18	18.76	70,433	10,788
2006	23.48	15.94	11.20	11.49	16.00	18.21	70,205	12,482

** $ In Thousands*

*** Rate was 3.22; employer paid 9.99*

**** Rate represents those adopted by Retirement Commission on 6/16/2003.*

V. GLOSSARY OF KEY INVESTMENT AND ACTUARIAL TERMS

Glossary of Key Investment and Actuarial Terms:

ACTUARIAL ACCRUED LIABILITY-
The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Sometimes referred to as "accrued liability".

ACTUARIAL ASSUMPTIONS-
Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

ACTUARIAL RESERVE-
A fund for the purpose of paying benefits which will not be paid in the very near future but which have already been earned. An actuarial reserve retirement fund sets aside money for benefits earned before the benefits will actually have to be paid.

ACTUARIAL VALUATION-
An examination by an actuary of a group of people, with regard to certain characteristics of the people in that group. Some of the characteristics are age, service, salaries, rate of turnover by death or termination. The actuary can then determine whether contributions are sufficient to fund liabilities earned. An annual actuarial valuation of active and retired members is conducted by Rodwan Consulting Company, the actuary for the Genesee County Employees' Retirement System.

AMORTIZE-

To pay off an interest-discounted amount with periodic payments of interest and principal as opposed to paying off with a lump sum payment.

AUDIT-
An examination by someone or some firm outside an organization of accounting records developed by the staff of the organization. Recommendations and suggestions for better record keeping and management are often part of an audit. An annual audit is conducted by Plante & Moran, PLLC, the independent auditors for the Genesee County Employees' Retirement System.

CORPORATE OBLIGATION-
An investment in a corporation with specified payments of principal and interest over a definite period of time.

DIVERSIFICATION-
The practice of investing in several different investment areas in order to minimize total portfolio risks.

LEVEL-COST FINANCING-
A method of financing a retirement system in which contributions, as a percentage of payroll, remain level from generation to generation, if benefit provisions are not changed.