

Road Commission for Oakland County Retirement System

**Financial Report
with Required Supplemental Information
December 31, 2007**

Road Commission for Oakland County Retirement System

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Independent Auditor's Report

To the Board of Trustees
Road Commission for Oakland County
Retirement System

We have audited the statement of plan net assets of the Road Commission for Oakland County Retirement System (a fiduciary fund of the Road Commission for Oakland County) as of December 31, 2007 and the statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Road Commission for Oakland County Retirement 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 plan net assets of the Road Commission for Oakland County Retirement System as of December 31, 2007 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.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the method 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

June 11, 2008

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County Retirement System (the "System") provides an overview of the System's financial activities for the calendar years ended December 31, 2007 and 2006. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below displays key financial information in a condensed format for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 220,612,213	\$ 235,479,347
Total liabilities	<u>38,608,970</u>	<u>57,768,598</u>
Net assets held in trust for pension benefits	<u>\$ 182,003,243</u>	<u>\$ 177,710,749</u>
Net investment income	\$ 9,510,562	\$ 20,186,971
Employer contributions	3,320,000	2,939,800
Refunds	-	21,374
Net securities lending	72,076	39,072
Benefit payments	8,610,144	8,118,517

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The System was established to provide retirement, disability, and death benefits to plan members, retirees, and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

In its statement of investment policy, guidelines, and objectives (SIPGO), the System's board of trustees (the "Trustees") established its asset allocation policies, which are expected to provide sufficient long-term investment income to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation guidelines as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Equities:		
Large cap growth	20.0%	20.0%
Large cap value	15.0%	15.0%
Mid cap broad	15.0%	15.0%
Small cap core	5.0%	5.0%
International	10.0%	10.0%
Fixed income	<u>35.0%</u>	<u>35.0%</u>
Total	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

Economic Factors, Investment Returns, and Other Important Matters

In the first three quarters of 2007, it appeared the U.S. stock market would reward investors with robust growth and rates of return that would dramatically exceed the assumed actuarial rate of return. However, in the fourth quarter, the market began a downward spiral. The mortgage crisis, the rapidly increasing pump-price of fuel, and continued uncertainty about future interest rate levels, caused the stock market to plummet in the fourth quarter of 2007. Despite the fourth quarter difficulties, the System's portfolio had a positive rate of return for calendar year 2007.

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Because the stock market is the principal investment forum utilized by the System, the market's 2007 market rate of return had a positive impact on the System. In 2007, the value of the System's net assets held in trust for pension benefits increased by 2.4 percent, following the prior year's increase of 9.3 percent. It is important to note that the System's purpose is to provide long-term benefit payments to its members and it is through long-term investing, as shown by the current year increase, that these promised benefits will be primarily funded. Through the System's investment policy asset allocation, the Trustees have positioned the portfolio for this long-term investment objective. In addition, to further maximize investment returns, the Trustees carefully monitor the performance of each of the System's investment managers and will take the necessary corrective actions to ensure acceptable investment results.

Since the System receives all of its new funding from its plan sponsor, the Road Commission for Oakland County's annual contribution is critical for the System's long-term viability. The plan administrator diligently ensures that this actuarially computed amount is paid into the System.

Contacting the System's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County Retirement System

Statement of Plan Net Assets December 31, 2007

Assets

Cash and short-term investments	\$ 8,572,006
Receivables - Interest and dividends	608,108
Investments:	
U.S. government debt obligations	7,977,607
U.S. agencies debt obligations	31,600,112
Corporate debt obligations	32,747,286
Corporate equities	112,355,064
Interest in investment pool	<u>26,752,030</u>
 Total investments	 <u>211,432,099</u>
 Total assets	 220,612,213

Liabilities

Accounts payable - Brokers and other - Net	11,856,940
Securities lending collateral payable	<u>26,752,030</u>
 Total liabilities	 <u>38,608,970</u>

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 182,003,243

Road Commission for Oakland County Retirement System

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

Additions

Investment income:

Interest and dividends	\$ 5,464,992
Net appreciation in fair value of investments	5,056,388
Less investment expenses	<u>(1,010,818)</u>

Net investment income 9,510,562

Employer contributions 3,320,000

Securities lending:

Interest and fees income	1,604,984
Less borrow rebates and bank fees	<u>(1,532,908)</u>

Net securities lending 72,076

Total net additions 12,902,638

Deductions - Benefit payments 8,610,144

Net Increase 4,292,494

Net Assets Held in Trust for Pension Benefits

Beginning of year 177,710,749

End of year **\$ 182,003,243**

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2007**

Note 1 - Summary of Significant Accounting Policies

The Road Commission for Oakland County Retirement System (the "System") is a single-employer defined benefit pension plan that is administered by the Road Commission for Oakland County Retirement System board of trustees. This plan covers substantially all employees of the Road Commission for Oakland County. The System's financial statements are also included in the combined financial statements of the Road Commission for Oakland County as a pension trust fund.

Basis of Accounting - The System uses the accrual method of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are recorded at fair value, based on quoted market prices.

Note 2 - Plan Description

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 489 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 341 vested active employees, and 194 nonvested active employees.

Note 3 - Contributions

Plan members are no longer required to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed by the Road Commission for Oakland County.

Note 4 - Reserves

As of December 31, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 55,546
Reserve for retired benefit payments	86,372,489

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2007**

Note 5 - Cash, Investments, and Securities Lending

The System is authorized by Michigan Public Act 314 of 1965 (the "Act"), as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The System has designated two banks for the deposit of its funds. The System's deposits and investment policies are consistent 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 System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had \$622,928 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. Each of the accounts of the System's six investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer. 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 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 have specific restrictions on investment maturities. At year end, the average maturities of debt security investments are as follows:

Investment Type	Fair Value	Maturity (Years)			
		< 1	1 - 5	6 - 10	> 10
U.S. Treasury	\$ 7,977,607	\$ -	\$ 5,668,473	\$ 1,501,191	\$ 807,943
U.S. agency	31,600,112	432,072	3,886	1,107,509	30,056,645
Corporate bonds	32,747,286	537,149	5,227,854	6,958,710	20,023,573

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2007**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Credit Risk

As of year end, the System's debt securities, other than U.S. government and agency obligations, were comprised substantially of corporate bonds and collateralized mortgage obligations. The System's investment policy provides that up to 25 percent of the fixed-income investment portfolio may be invested in noninvestment grade securities (BB to CCC rated) with at least 80 percent of the noninvestment grade portfolio consisting of BB or B rated securities at the time of acquisition. The System may invest up to 15 percent of the fixed-income portfolio in non-U.S. dollar denominated fixed-income securities. The minimum credit rating for international fixed income securities is single B at the time of purchase. The credit ratings of these securities are as follows:

Rating	Fair Value	Rating Agency
AAA	\$ 10,046,255	S&P
AA+	306,447	S&P
AA	896,091	S&P
AA-	1,621,416	S&P
A+	486,701	S&P
A	787,525	S&P
A-	712,226	S&P
BBB+	1,995,739	S&P
BBB	1,888,252	S&P
BBB-	1,801,805	S&P
BB+	1,014,768	S&P
BB	526,178	S&P
BB-	729,471	S&P
B+	46,825	S&P
B	1,121,175	S&P
B-	125,975	S&P
CCC+	924,788	S&P
CCC	208,340	S&P
Not Rated	7,507,309	N/A
	<u>\$ 32,747,286</u>	

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2007**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Securities Lending Transactions

State statutes and board of trustees' investment policies permit participation of the System in securities lending transactions, loans of securities to broker-dealers, and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The System, via a securities lending authorization agreement, authorized the custodial bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2007, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

The System did not impose any restrictions during the year ended December 31, 2007 on the amount of the loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2007. There were no losses to the System or the custodial bank during the year ended December 31, 2007 resulting from default of the borrowers.

During the year ended December 31, 2007, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The average duration of such investment pool as of December 31, 2007 was 128 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of the underlying securities on loan as of December 31, 2007 were \$26,752,030 and \$25,798,906, respectively.

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2007**

Note 5 - Cash, Investments, and Securities Lending (Continued)

The following represents the balances relating to the securities lending transactions as of December 31, 2007; investments are reported at fair value:

Securities Lent	Underlying Securities	Collateral Received	Collateral Investment Value	Type of Collateral
U.S. government and agencies obligations	\$ 6,870,833	\$ 6,994,206	\$ 6,994,206	Custodian's short-term investment pool
U.S. corporate fixed-income obligations	555,170	569,150	569,150	Custodian's short-term investment pool
U.S. equities	18,372,903	19,188,674	19,188,674	Custodian's short-term investment pool
Total	<u>\$ 25,798,906</u>	<u>\$ 26,752,030</u>	<u>\$ 26,752,030</u>	

Note 6 - Risk Management

The System's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages this risk by participating with the Road Commission for Oakland County in its partially self-insured liability program.

Required Supplemental Information

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	(Overfunded)
						AAL as a Percentage of Valuation Payroll
12/31/01	\$ 150,647,599	\$ 127,603,386	\$ (23,044,213)	118.1	\$ 26,570,231	(86.7)
12/31/02	149,363,853	132,828,911	(16,534,942)	112.4	26,759,461	(61.8)
12/31/03	154,182,955	142,068,917	(12,114,038)	108.5	28,259,643	(42.9)
12/31/04	159,759,473	147,662,189	(12,097,284)	108.2	28,582,921	(42.3)
12/31/05	164,693,398	157,902,403	(6,790,995)	104.3	29,293,470	(23.2)
12/31/06	170,697,799	159,048,368	(11,649,431)	107.3	27,791,451	(41.9)

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and overfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability as a percentage of annual valuation payroll approximately adjust for the effects of inflation and aid analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Employer Contributions

The information presented above was determined as part of the actuarial valuations as of the year before the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, is as follows:

Years Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 1,573,200	100.0
2003	1,895,360	100.0
2004	2,494,941	100.0
2005	2,819,103	100.0
2006	2,939,800	100.0
2007	3,320,000	100.0

Actuarial cost method	Individual entry age, normal cost
Amortization method	Level percent of payroll contributions, closed periods
Remaining amortization period	14 years
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 8.0%
Cost of living adjustments	None

* Includes pay inflation at 4.5%

**Road Commission for Oakland County
Retirement System**

**Road Commission for Oakland County
Retiree Health Care Trust**

**Report to the Board of Trustees
December 31, 2007**



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To the Board of Trustees
 Road Commission for Oakland County
 Retirement System
 Road Commission for Oakland County
 Retiree Health Care Trust

We have recently completed our audits of the basic financial statements of the Road Commission for Oakland County Retirement System (the “System”) and the Road Commission for Oakland County Retiree Health Care Trust (the “Trust”) for the year ended December 31, 2007. In addition to our audit reports, we are providing the following report on the results of the audit process and informational comments that impact the System and/or the Trust.

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Results of the Audit Process	2-4
Other Informational Comments and Recommendations	5

We are grateful for the opportunity to be of service to both the System and the Trust. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC





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Report on the Results of the Audit Process

To the Board of Trustees
Road Commission for Oakland County
Retirement System
Road Commission for Oakland County
Retiree Health Care Trust

We have audited the financial statements of the Road Commission for Oakland County Retirement System (the “System”) and the Road Commission of Oakland County Retiree Health Care Trust (the “Trust”) for the year ended December 31, 2007 and have issued our reports thereon dated June 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the System and the Trust. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters and a letter regarding the same dated April 21, 2008.

To the Board of Trustees
Road Commission for Oakland County
Retirement System
Road Commission for Oakland County
Retiree Health Care Trust

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the System and the Trust are described in Note I to each respective financial statement.

No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the organizations during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred. The disclosures in the financial statements are neutral, consistent, and clear

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audits.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that are trivial, and communicate them to the appropriate level of management. There are no corrected or uncorrected misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audits.

To the Board of Trustees
Road Commission for Oakland County
Retirement System
Road Commission for Oakland County
Retiree Health Care Trust

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 11, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organizations' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organizations we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organizations, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organizations' auditors.

This information is intended solely for the use of the board of trustees and management of the System and the Trust and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

June 11, 2008

To the Board of Trustees
Road Commission for Oakland County
Retirement System
Road Commission for Oakland County
Retiree Health Care Trust

Other Informational Comments and Recommendations

Investment Allocations - Based on our limited review of the System's investment allocations as of December 31, 2007, we noted that the methodology for determining whether investments are in compliance includes reviewing the ratings for each security and selecting the highest of the three agencies (Fitch, Moody's, or Standard and Poors) for each security. It appears that the System's investment policy does not define a specific methodology to be used. We recommend that the board consider including acceptable methodologies to be used in determining whether investment allocations are in compliance with the policy.

Investment in Futures - During the audit, retirement system staff consulted with Plante & Moran, PLLC regarding the accounting for an investment in a futures contract. Large retirement systems often invest in alternative investments such as futures and derivatives. This can be a way to diversify the portfolio and potentially increase investment returns; however, there is a risk associated with these investments. We recommend that the System continue to work closely with its investment managers to ensure that the trustees understand the nature and risk of these investments.

Additional Monitoring and Review - We recommend that the System's management obtain a copy of Comerica's SAS 70 report annually. A SAS 70 report is issued by the service auditor that audits and assesses Comerica's internal controls. Management should review the report for any internal control matters that may impact the System.