Washtenaw County Employees' Retirement System

For the Years Ended
December 31, 2011
and 2010

Financial
Statements

Rehmann
Business wisdom delivered.

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Table of Contents

■ ■ ■ ■ ■

Rehmann

Rehmann Robson
675 Robinson Rd.
Jackson, MI 49203
Ph: 517.787.6503
Fx: 517.788.8111
www.rehmann.com

INDEPENDENT AUDITORS' REPORT

April 18, 2012

To the Board of Commissioners
Washtenaw County Employees' Retirement Commission
Ann Arbor, Michigan

We have audited the accompanying statements of plan net assets of the *Washtenaw County Employees' Retirement System* (the "System") as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and do not purport to, and do not, present fairly the financial position of Washtenaw County as of December 31, 2011 and 2010, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net assets held in trust for pension benefits at December 31, 2011 and 2010, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and contributions on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Rehmann Robson

FINANCIAL STATEMENTS

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Investments, at fair value:		
Equities	$ 83,068,811	$ 108,574,443
United States treasuries	4,721,054	3,546,094
United States treasury strips	15,638,591	11,445,575
United States agencies	27,277,972	23,308,103
Corporate securities	18,723,735	18,412,881
Real estate investment trusts	16,311,278	13,803,854
Mutual funds	28,197,070	22,234,267
Money market funds	12,711,414	3,852,377
Total investments	206,649,925	205,177,594
Accrued interest and dividends	369,855	372,852
Total assets	207,019,780	205,550,446
Liabilities		
Accounts payable and accrued expenses	245,107	315,440
Net assets held in trust for pension benefits	**$ 206,774,673**	**$ 205,235,006**

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

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets
December 31, 2011 and 2010

	2011	2010
Additions		
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	$ 6,036,696	$ 18,814,308
Interest and dividends	3,799,649	4,509,652
Total investment income	9,836,345	23,323,960
Investment management fees	(936,510)	(904,453)
Net investment income	8,899,835	22,419,507
From securities lending activities:		
Gross earnings	48,022	51,596
Borrower rebates	10,565	2,355
Securities lending fees	(21,419)	(25,116)
Net investment income from securities lending activities	37,168	28,835
Total net investment income	8,937,003	22,448,342
Contributions:		
Washtenaw County	7,387,597	6,516,006
Participants	4,349,499	5,593,655
Total contributions	11,737,096	12,109,661
Other additions	3,175	1,609
Total additions	20,677,274	34,559,612
Deductions		
Participant benefits	17,651,278	16,836,560
Administrative expenses	347,712	381,409
Participant refunds	1,138,617	649,889
Total deductions	19,137,607	17,867,858
Net additions to net assets held in trust for benefits	1,539,667	16,691,754
Net assets held in trust for benefits, beginning of year	205,235,006	188,543,252
Net assets held in trust for benefits, end of year	$ 206,774,673	$ 205,235,006

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

NOTES TO FINANCIAL STATEMENTS

Notes To Financial Statements

1. PLAN DESCRIPTION

The Washtenaw County Employees' Retirement System (the "System") is a single employer defined benefit contributory retirement plan which provides pension, death and disability benefits covering certain full-time employees of Washtenaw County (the "County"). The Municipal Employees' Retirement System of Michigan, a separate defined benefit plan, covers Sheriff's Department employees hired on or after January 1, 1989.

Retirees and beneficiaries are eligible for postemployment healthcare benefits if they are receiving a pension from the System. The Washtenaw County Voluntary Employees Beneficiary Association (VEBA) pays these benefits.

System membership consisted of the following at December 31:

	2011	2010
Retirees and beneficiaries currently receiving benefits	772	737
Terminated employees entitled to but not yet receiving benefits	28	22
Vested active participants	995	1,063
Total membership	1,795	1,822

For the year ended December 31, 2011, both participating Sheriff and non-Sheriff department members are required to contribute 8.0% of their annual compensation to the System for pension benefits. For the year ended December 31, 2010, participating Sheriff and non-Sheriff department members were required to contribute 7.5% and 8.0%, respectively, of their annual compensation to the System for pension benefits. The County contributes such additional amounts, as necessary, based on an actuarial determination, to provide assets sufficient to pay for member benefits. The County's contribution for the Sheriff department and non-Sheriff members for the year ended December 31, 2011, represents 1,717.51% and 8.67%, respectively, of annual covered payroll. The County's contribution for the Sheriff department and non-Sheriff members for the year ended December 31, 2010, represents 987.60% and 8.70%, respectively, of annual covered payroll.

The System is administered by the County; accordingly, it is included as a pension trust fund in the County's financial statements. Plan amendments are under the authority of County Ordinances. Changes in required contributions are subject to collective bargaining agreements and approval by the Washtenaw County Board of Commissioners.

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments. The System's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the System's Board of Directors, with the assistance of a valuation service; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Administration. Administrative costs are financed through investment earnings.

3. DEPOSITS, INVESTMENTS AND SECURITIES LENDING

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

The System's investments are primarily held in a bank administered trust fund. Following is a summary of the System's investments as of December 31: (investments at fair value, as determined by quoted market price).

	2011	2010
Equities:		
Not on securities loan	$ 71,570,826	$ 99,078,705
On securities loan	11,497,985	9,495,738
U.S. treasuries	4,721,054	3,546,094
U.S. treasury strips	15,638,591	11,445,575
U.S. agencies:		
Not on securities loan	26,577,576	20,735,142
On securities loan	700,396	2,572,961
Corporate securities	18,723,735	18,412,881
Real estate investment trusts	16,311,278	13,803,854
Mutual funds	28,197,070	22,234,267
Money market funds	12,711,414	3,852,377
Total investments	$ 206,649,925	$ 205,177,594

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy provides that 90% of its investments in fixed income securities be limited to those rated BAA or better by a nationally recognized statistical rating organization, except for United States treasury securities which are explicitly guaranteed by the U.S. government and not considered to have credit risk.

As of December 31, the System's investments in securities of U.S. agencies that are implicitly guaranteed ($3,255,553 and $2,834,399 of U.S. agencies are explicitly guaranteed as of December 31, 2011 and 2010, respectively) by the U.S. government were rated AA by Standard & Poor's.

The System's investments in corporate securities were rated by Standard & Poor's as follows at December 31:

	2011	2010
AAA	$ 2,800,880	$ 5,747,705
AA	2,020,103	2,306,283
A	5,627,373	5,041,873
BBB	3,690,842	3,335,483
BB	34,507	305,230
CCC	-	240,910
CC	-	30,835
D	30,750	-
Not Rated	4,519,280	1,404,562
	$ 18,723,735	$ 18,412,881

The System's investments in money market funds and real estate investment trusts are not rated. The System does not invest in bond mutual funds.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that securities be held in trust by a third-party institution in the System's name or its nominee custodian's name or in bearer form. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the System's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Notes To Financial Statements

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that no more than: 35% of its assets be invested in large cap equities, 15% in mid cap equities, 15% in small cap equities, 15% in international equities, 10% in real estate and 35% in fixed income securities.

At December 31, 2011 and 2010, the System's investment portfolio was concentrated as follows:

Investment Type	Issuer	% of Portfolio
2011		
Large cap equities	D.E. Shaw Group, LLC	26.72%
Fixed income	Federal National Mortgage Association	8.01%
2010		
Large cap equities	D.E. Shaw Group, LLC	30.40%
Fixed income	Federal National Mortgage Association	6.50%

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy requires a maximum term to maturity of 30 years for any single fixed income security. The System's investment policy does not address weighted average portfolio maturities.

As of December 31, 2011, maturities of the System's debt securities were as follows:

		Investments Maturities (fair value by years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	$ 4,721,054	$ 784,594	$ 1,560,608	$ 1,012,734	$ 1,363,118
U.S. treasury strips	15,638,591	-	8,697,050	5,476,394	1,465,147
U.S. agencies	27,277,972	1,502	1,308,334	8,000,043	17,968,093
Corporate securities	18,723,735	858,230	6,285,971	4,357,427	7,222,107
	$ 66,361,352	$ 1,644,326	$ 17,851,963	$ 18,846,598	$ 28,018,465

Of the above balances, $8,637,235 of the U.S. agencies securities and $13,464,497 of corporate securities are callable.

Notes To Financial Statements

As of December 31, 2010, maturities of the System's debt securities were as follows:

		Investments Maturities (fair value by years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	$ 3,546,094	$ 55,583	$ 441,224	$ 1,994,982	$ 1,054,305
U.S. treasury strips	11,445,575	-	7,288,961	3,765,668	390,946
U.S. agencies	23,308,103	152,292	968,755	4,531,492	17,655,564
Corporate securities	18,412,881	675,140	5,769,509	4,505,956	7,462,276
	$ 56,712,653	$ 883,015	$ 14,468,449	$ 14,798,098	$ 26,563,091

Of the above balances, $8,649,654 of the U.S. agencies securities and $13,496,871 of corporate securities are callable.

The System's portfolio of U.S. agencies and corporate securities includes certain collateralized mortgage obligations (with interest-only and principal-only strips), mortgage pass-through asset-backed securities, variable-rate securities, and inverse variable-rate securities. The fair value of these investments was summarized as follows at December 31:

	2011	2010
Collateralized mortgage obligations:		
Interest-only strips	$ 1,160,875	$ 1,435,209
Principal-only strips	1,830,805	2,317,667
Mortgage pass-through asset-backed securities	9,521,643	5,956,825
Variable-rate securities	2,336,583	2,000,932
Inverse variable-rate securities	1,604,731	2,617,104

The System invests in interest-only strips, in part, to maximize yields and as protection against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to increased prepayments by mortgagees, which may result from a decline in interest rates. If interest rates decline, the value of interest-only strips declines. If interest rates increase, the value of interest-only strips increases.

The System invests in principal-only strips to reduce the price sensitivity of its fixed-income portfolio to changes in interest rates. These principal-only strips are sensitive to decreased mortgage prepayments that may result from rising interest rates. If interest rates increase, the value of principal-only strips declines. If interest rates decrease, the value of principal-only strips increases.

Notes To Financial Statements

The System invests in mortgage pass-through asset-backed securities issued by Fannie Mae (Federal National Mortgage Association), Ginnie Mae (Government National Mortgage Association), and Freddie Mac (Federal Home Loan Mortgage Corporation), in order to reduce the fair value sensitivity of its fixed-income portfolio to changes in interest rates. These securities are sensitive to increased mortgage prepayments that may result from declining interest rates, thus decreasing the fair value of these investments.

A variable-rate investment's coupon amount enhances or amplifies the effects of interest rate changes by greater than a one-to-one basis. The multiplier makes the fair value of these investments highly sensitive to interest rate changes. As of December 31, 2011, the System holds 44 variable-rate investments with a fair value of $2,336,583. The coupon rates for these investments range from 0.33% to 4.51%; the benchmark indexes include one-month, three-month, six-month, and twelve-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), Federal Reserve US H.15 Treasury Note Constant Maturity One Year, and one-year treasury rate; the reset frequency is monthly, quarterly, semi-annually, or annually; the coupon payment frequency is monthly or quarterly; and the coupon multiplier is 1.0 times the benchmark index, plus 0.1% to 2.25%, with a cap ranging from 6.75% to 13.511% and a floor ranging from 0.0% to 3.25%.

As of December 31, 2011, the System held 72 inverse variable-rate investments with a fair value of $1,604,731. With inverse variable-rate securities, coupon payments decline as interest rates increase. The coupon rates for these investments range from 8.90% to 1,153.49%; the benchmark indexes include one-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), and three-month treasury rate; the reset and coupon payment frequency is monthly; and coupon multipliers range from negative 1,500 to negative 1.0 times the benchmark index, plus 5.05% to 15,573.50%, with a cap ranging from 5.05% to 15,573.50% and a floor ranging from 0.0% to 11.0%.

As of December 31, 2010, the System held 32 variable-rate investments with a fair value of $2,000,932. The coupon rates for these investments range from 0.0% to 6.68%; the benchmark indexes include one-month, three-month, six-month, and twelve-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), Federal Reserve US H.15 Treasury Note Constant Maturity One Year, and one-year treasury rate; the reset frequency is monthly, quarterly, semi-annually, or annually; the coupon payment frequency is monthly or quarterly; and the coupon multipliers range from 1.0 to 44.8 times the benchmark index, minus 268.8% to plus 2.246%, with a cap ranging from 6.75% to 20.4% and a floor ranging from 0.0% to 3.20%.

Notes To Financial Statements

As of December 31, 2010, the System held 76 inverse variable-rate investments with a fair value of $2,617,104. With inverse variable-rate securities, coupon payments decline as interest rates increase. The coupon rates for these investments range from 8.76% to 1,153.49%; the benchmark indexes include one-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), and three-month treasury rate; the reset and coupon payment frequency is monthly; and coupon multipliers range from negative 1,500 to negative .889 times the benchmark index, plus 5.05% to 15,573.50%, with a cap ranging from 5.05% to 15,573.50% and a floor ranging from 0.0% to 11.0%.

Securities Lending. A contract approved by the System's Board of Directors, permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral securities and letters of credit are initially pledged at 102 percent of the market value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned.

Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System. The contract with the System's custodian requires it 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.

4. ANNUAL REQUIRED CONTRIBUTION

The County's annual retirement benefits cost and net retirement benefits obligation for the year ended December 31, 2011 and 2010, were as follows:

	2011	2010
Annual required contribution / retirement benefit cost	$ 7,387,597	$ 6,516,006
Contribution made	7,387,597	6,516,006
Increase (decrease) in net retirement benefit obligation	-	-
Net retirement benefit obligation, beginning of year	-	-
Net retirement benefit obligation, end of year	$ -	$ -

The annual required contribution for 2011 and 2010 was determined as part of an actuarial valuation of the System as of December 31, 2009 and 2008, respectively, using the aggregate cost actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities.

For the three years ended December 31, 2009, 2010 and 2011 the annual retirement benefit cost for the County was $6,752,093, $6,516,006 and $7,387,597, respectively. The County contributed 100% of the annual retirement benefit cost and there was no net retirement benefit obligation.

5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of December 31, 2010, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	(1)	$ 283,335,493	
Actuarial value of assets	(2)	199,082,987	
Unfunded AAL (UAAL)	(3)	84,252,506	(1)-(2)
Funded ratio	(4)	70.3%	(2)/(1)
Covered payroll	(5)	57,091,642	
UAAL as % of covered payroll	(6)	147.6%	(3)/(5)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of trust assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan. However, for purposes of calculating the annual required contribution (ARC), the System uses the aggregate cost actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the System by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Valuation date	12/31/2010
Actuarial cost method	Aggregate cost method for Sheriff's division; entry-age normal cost for General division.
Amortization method	General division liabilities funded as a level percent of payroll over 28 years. Sheriff's division liabilities were amortized over 8 years using level dollar method.
Asset valuation method	Market value with 5 year smoothing of gains and losses.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases *	4.5% to 11.9%
Cost-of-living adjustments	None

* Includes pay inflation of 4.5%

■ ■ ■ ■ ■

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

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 Percentage of Covered Payroll ((b-a) / c)
	12/31/2001	$ 163,564,179	$ 166,381,778	$ 2,817,599	98.3%	$ 13,843,557	20.4%
	12/31/2002	157,473,610	169,389,000	11,915,390	93.0%	12,836,355	92.8%
	12/31/2003	157,237,691	173,989,111	16,751,420	90.4%	12,332,026	135.8%
	12/31/2004	150,576,655	177,524,551	26,947,896	84.8%	12,134,962	222.1%
	12/31/2005	145,093,140	177,684,410	32,591,270	81.7%	11,076,300	294.2%
	12/31/2006	145,235,953	181,591,924	36,355,971	80.0%	10,243,828	354.9%
	12/31/2007	150,229,089	190,725,826	40,496,737	78.8%	9,354,679	432.9%
*	12/31/2007	210,446,657	265,463,304	55,016,647	79.3%	57,943,478	94.9%
	12/31/2008	209,556,482	270,299,282	60,742,800	77.5%	61,746,106	98.4%
	12/31/2009	201,112,644	271,514,028	70,401,384	74.1%	58,041,444	121.3%
	12/31/2010	199,082,987	283,335,493	84,252,506	70.3%	57,091,642	147.6%

NOTE: For purposes of the Schedule of Funding Progress, the actuarial accrued liability values as shown are determined using the entry age actuarial cost method. However, for purposes of calculating the ARC, the System uses the aggregate cost actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities.

* Includes General division employees from the County's defined contribution plan (MPPP).

Schedule of Contributions From the Employer and Other Contributing Entity

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2002	$ 1,456,780	100.0%
2003	1,651,416	100.0%
2004	2,451,764	100.0%
2005	2,700,525	100.0%
2006	3,845,384	100.0%
2007	4,827,249	100.0%
2008	5,359,824	100.0%
2009	6,752,093	100.0%
2010	6,516,006	100.0%
2011	7,387,597	100.0%