Washtenaw County Voluntary Employees Beneficiary Association

For the Years Ended December 31, 2011 and 2010

Financial Statements

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WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

April 18, 2012

To the Board of Trustees
Washtenaw County Voluntary Employees
Beneficiary Association
Ann Arbor, Michigan

We have audited the accompanying statements of plan net assets of the *Washtenaw County Voluntary Employees Beneficiary Association* (the "Association") 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 Plan'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 Voluntary Employees Beneficiary Association healthcare benefits 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 14 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
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Statements of Plan Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Investments, at fair value:		
Equities	$ 25,820,689	$ 28,409,718
United States agencies	-	91,355
Corporate securities	264,271	393,734
Multi-strategy limited partnership	4,365,523	4,512,325
Real estate limited partnership	969,923	728,560
Hedge funds limited partnership	3,443,992	-
Bond mutual fund	23,030,484	17,853,935
Money market funds	8,254,597	3,942,865
Total investments	66,149,479	55,932,492
Contributions receivable	-	7,157,900
Accounts receivable	64,714	65,894
Total assets	66,214,193	63,156,286
Liabilities		
Accrued liabilities	60,520	78,062
Net assets held in trust for healthcare benefits	**$ 66,153,673**	**$ 63,078,224**

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

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Statements of Changes in Plan Net Assets

December 31, 2011 and 2010

	2011	2010
Additions to net assets		
Contributions:		
Employer	$ 12,001,663	$ 12,073,876
On behalf - federal Medicare Part D subsidy	970,602	505,309
Total contributions	12,972,265	12,579,185
Investment income:		
Interest and dividends	1,450,051	1,181,715
Appreciation (depreciation) in fair value of investments	(2,900,120)	5,168,202
Total investment income (loss)	(1,450,069)	6,349,917
Investment management fees	(253,966)	(238,223)
Net investment income (loss)	(1,704,035)	6,111,694
Other income - retiree medical premiums	4,954	-
Total additions	11,273,184	18,690,879
Deductions from net assets		
Participant benefits	7,884,050	6,563,154
Administrative expenses	313,685	218,920
Total deductions from net assets	8,197,735	6,782,074
Increase in net assets	3,075,449	11,908,805
Net assets held in trust for healthcare benefits, beginning of year	63,078,224	51,169,419
Net assets held in trust for healthcare benefits, end of year	**$ 66,153,673**	**$ 63,078,224**

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

NOTES TO FINANCIAL STATEMENTS

Notes To Financial Statements

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The Washtenaw County Voluntary Employees Beneficiary Association (VEBA; the “Association”) is a single-employer defined benefit postemployment healthcare plan established and administered by Washtenaw County (the “County”) to provide medical and healthcare benefits for retirees and their beneficiaries. Eligible participants include any retirees who receive pension benefits under one of the County’s pension plans. Association provisions are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County’s various collective bargaining agreements.

The Association is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan, and is included as a pension and other employee benefits trust fund in the County’s financial statements.

Subject to certain age and length of service requirements, eligible participants receive the same or comparable medical insurance coverage under the Association as was in effect at the time of their employment. At such time that participants become Medicare eligible, the benefits under the Association change to Medicare Supplemental coverage.

Employer and employee contribution requirements are established by the Washtenaw County Board of Commissioners. For 2011 and 2010, employee contributions were not required. Employer contributions for 2011 and 2010 were intended to be at a level that exceeds the current cost of benefits and, therefore, build the trust for purposes of paying future benefits, but not necessarily at the actuarially determined rate. The actual contribution rates for 2011 and 2010 were 15.81% and 15.58%, respectfully, which were equal to the actuarial contribution rates. In the event that trust assets are not sufficient to pay for benefits, the employer is required to contribute the additional amounts necessary to provide the benefits. For 2011 and 2010, no additional contributions were required nor were any benefits paid directly by the employer on a pay-as-you-go basis.

Association membership consisted of the following at December 31:

	2011	2010
Retirees and beneficiaries currently receiving benefits	762	730
Terminated employees entitled to but not yet receiving benefits	28	22
Vested active participants	1,284	1,361
Total membership	2,074	2,113

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The Association's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period that the contributions are due and, for employer contributions, when the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the trust agreement.

Method Used to Value Investments. Association investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Administration. Administrative costs are financed through the Association's investment earnings.

3. INVESTMENTS

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

The Association's investments are held by an independent investment management company. Following is a summary of the Association's investments as of December 31:

	2011	2010
Investments at fair value, as determined by quoted market prices:		
Equities	$ 25,820,689	$ 28,409,718
United States agencies	-	91,355
Corporate securities	264,271	393,734
Multi-strategy limited partnership	4,365,523	4,512,325
Real estate limited partnership	969,923	728,560
Hedge funds limited partnership	3,443,992	-
Bond mutual fund	23,030,484	17,853,935
Money market funds	8,254,597	3,942,865
Total investments	$ 66,149,479	$ 55,932,492

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's investment policy provides that all of its investments in fixed income securities be rated "A+" 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.

Notes To Financial Statements

As of December 31, 2010, the Association's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. The Association's investments in corporate securities were rated by Standard & Poor's as follows at December 31:

	2011	2010
BBB+	$ -	$ 57,150
B+	-	36,700
B	84,240	90,600
CCC+	92,625	-
CCC	36,180	24,650
CCC-	24,579	47,700
Not Rated	26,647	136,934
	$ 264,271	$ 393,734

The Association's investments in money market funds were rated AAA by Standard & Poor's at December 31, 2011 and 2010. The bond mutual funds were not rated.

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 Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk. Although uninsured and unregistered, the Association's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Association'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.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer. The Association's investment policy requires that no more than ten percent of its assets be invested in money market funds or short-term U.S. treasuries, no more than five percent in any one issuer and no more than twenty percent in any one industry.

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

Investment Type	Issuer	% of Portfolio
2011		
Multi-strategy	Hatteras Core Alternatives TEI Institutional Fund, Limited Partnership	6.60%
Hedge funds	Pinehurst Institutional Limited Partnership	5.21%
2010		
Multi-strategy	Hatteras Core Alternatives TEI Institutional Fund, Limited Partnership	8.07%

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy provides that the weighted average maturity of its fixed income portfolio may not exceed 10 years.

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

		Investments Maturities (fair value by years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Corporate securities	$ 264,271	$ -	$ 87,406	$ -	$ 176,865

As of December 31, 2010, maturities of the Association'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. agencies	$ 91,355	$ -	$ -	$ 20,242	$ 71,113
Corporate securities	393,734	-	104,850	-	288,884
	$ 485,089	$ -	$ 104,850	$ 20,242	$ 359,997

Money market funds have a rolling maturity date of less than sixty days as of December 31, 2011 and 2010. The JP Morgan Core Bond mutual fund has a weighted average maturity of 5.70 years as of December 31, 2011 and 5.41 years as of December 31, 2010. The Templeton Global Bond mutual fund has a weighted average maturity of 2.8 years as of December 31, 2011 and 4.45 years as of December 31, 2010. Of the above balances, $213,045 of the corporate securities was callable as of December 31, 2011. Of the above balances, $31,015 of the U.S. agencies and $288,884 of the corporate securities were callable as of December 31, 2010.

4. FUNDED STATUS AND FUNDING PROGRESS

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

Actuarial accrued liability (AAL)	(1)	$ 210,172,475	
Actuarial value of assets	(2)	60,423,474	
Unfunded AAL (UAAL)	(3)	149,749,001	(1)-(2)
Funded ratio	(4)	28.7%	(2)/(1)
Covered payroll	(5)	75,538,228	
UAAL as % of covered payroll	(6)	198.2%	(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, mortality, and the healthcare cost trend. 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 schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of trust assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Association 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 43. 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 thirty years.

Notes To Financial Statements

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	Entry age
Amortization method	Level percentage of pay, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Healthcare cost trend rate	9% initial, 5% ultimate
Inflation rate	2.5%
Post-retirement benefit increases	None

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REQUIRED SUPPLEMENTARY INFORMATION

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

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)
12/31/2004	$ 30,159,739	$ 150,053,560	$ 119,893,821	20.1%	$ 69,804,470	171.8%
12/31/2005	31,646,289	149,890,222	118,243,933	21.1%	71,477,954	165.4%
12/31/2006	37,653,565	183,743,134	146,089,569	20.5%	75,492,444	193.5%
12/31/2007	44,747,254	164,107,793	119,360,539	27.3%	76,546,962	155.9%
12/31/2008	48,980,535	194,580,255	145,599,720	25.2%	79,802,651	182.4%
12/31/2009	52,375,567	192,041,852	139,666,285	27.3%	75,950,342	183.9%
12/31/2010	60,423,474	210,172,475	149,749,001	28.7%	75,538,228	198.2%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2006	$ 12,013,367	66.9%
2007	11,952,578	80.7%
2008	13,329,469	82.2%
2009	10,807,274	95.0%
2010	12,073,876	100.0%
2011	12,001,663	100.0%