

Washtenaw County Employees' Retirement System

Years Ended
December 31,
2012 and 2011

Financial
Statements

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 26, 2013

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the *Washtenaw County Employees' Retirement System* (the "System") as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net position held in trust for pension benefits at December 31, 2012 and 2011, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, stylized 'L' and 'J'.

FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Position

December 31, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| Assets | | |
| Investments, at fair value: | | |
| Equities | \$ 123,669,295 | \$ 83,068,811 |
| United States treasuries | 5,716,588 | 4,721,054 |
| United States treasury strips | 16,364,728 | 15,638,591 |
| United States agencies | 27,876,829 | 27,277,972 |
| Corporate securities | 20,785,282 | 18,723,735 |
| Real estate investment trusts | 18,077,922 | 16,311,278 |
| Mutual funds | - | 28,197,070 |
| Money market funds | 6,206,971 | 12,711,414 |
| | <hr/> | <hr/> |
| Total investments | 218,697,615 | 206,649,925 |
| | | |
| Accrued interest and dividends | 314,220 | 369,855 |
| | <hr/> | <hr/> |
| Total assets | 219,011,835 | 207,019,780 |
| | | |
| Liabilities | | |
| Accounts payable and accrued expenses | 175,570 | 245,107 |
| | <hr/> | <hr/> |
| Net position held in trust for pension benefits | <u>\$ 218,836,265</u> | <u>\$ 206,774,673</u> |

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

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Position

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|----------------|----------------|
| Additions | | |
| Investment income: | | |
| <i>From investing activities:</i> | | |
| Net appreciation in fair value of investments | \$ 19,611,606 | \$ 6,036,696 |
| Interest and dividends | 3,366,041 | 3,799,649 |
| Total investment income | 22,977,647 | 9,836,345 |
| Investment management fees | (773,395) | (936,510) |
| Net investment income from investing activities | 22,204,252 | 8,899,835 |
| <i>From securities lending activities:</i> | | |
| Gross earnings | 18,248 | 48,022 |
| Borrower rebates | 664 | 10,565 |
| Securities lending fees | (7,501) | (21,419) |
| Loss on impairment of invested securities lending collateral | (328,171) | - |
| Net investment income (loss) from securities lending activities | (316,760) | 37,168 |
| Total net investment income | 21,887,492 | 8,937,003 |
| Contributions: | | |
| Washtenaw County | 7,174,819 | 7,387,597 |
| Participants | 5,354,559 | 4,349,499 |
| Total contributions | 12,529,378 | 11,737,096 |
| Other additions | - | 3,175 |
| Total additions | 34,416,870 | 20,677,274 |
| Deductions | | |
| Participant benefits | 20,216,544 | 17,651,278 |
| Administrative expenses | 379,998 | 347,712 |
| Participant refunds | 1,758,736 | 1,138,617 |
| Total deductions | 22,355,278 | 19,137,607 |
| Change in net position | 12,061,592 | 1,539,667 |
| Net position held in trust for pension benefits, beginning of year | 206,774,673 | 205,235,006 |
| Net position held in trust for pension benefits, end of year | \$ 218,836,265 | \$ 206,774,673 |

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

NOTES TO FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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:

| | 2012 | 2011 |
|---|--------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 844 | 772 |
| Terminated employees entitled to but not yet receiving benefits | 32 | 28 |
| Vested active participants | 1,087 | 995 |
| Total membership | 1,963 | 1,795 |

For the year ended December 31, 2012, participating Sheriff and non-Sheriff department members are required to contribute 8.0% and 10.0%, respectively, of their annual compensation to the System for pension benefits. For the year ended December 31, 2011, participating Sheriff and non-Sheriff department members were required to contribute 8.0% and 7.5%, 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, 2012, represents 1,956.42% and 7.50%, respectively, of annual covered payroll. 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 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.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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).

| | 2012 | 2011 |
|-------------------------------|-----------------------|-----------------------|
| Equities: | | |
| Not on securities loan | \$ 123,669,295 | \$ 71,570,826 |
| On securities loan | - | 11,497,985 |
| U.S. treasuries | 5,716,588 | 4,721,054 |
| U.S. treasury strips | 16,364,728 | 15,638,591 |
| U.S. agencies: | | |
| Not on securities loan | 27,876,829 | 26,577,576 |
| On securities loan | - | 700,396 |
| Corporate securities | 20,785,282 | 18,723,735 |
| Real estate investment trusts | 18,077,922 | 16,311,278 |
| Mutual funds | - | 28,197,070 |
| Money market funds | 6,206,971 | 12,711,414 |
| Total investments | <u>\$ 218,697,615</u> | <u>\$ 206,649,925</u> |

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

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 70% of its investments in fixed income securities be limited to those rated BBB 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, 2012, \$2,440,655 of the System's investments in securities of U.S. agencies were explicitly guaranteed by the U.S. government and therefore not subject to credit risk. Of the remaining balance, \$25,389,205 was implicitly guaranteed and rated AA by Standard & Poors.

As of December 31, 2011, \$3,255,553 of the System's investments in securities of U.S. agencies were explicitly guaranteed by the U.S. government and therefore not subject to credit risk. The remaining balance of \$24,022,419 was implicitly guaranteed and rated AA by Standard & Poors.

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

| | 2012 | 2011 |
|-----------|----------------------|----------------------|
| AAA | \$ 3,071,161 | \$ 2,800,880 |
| AA | 3,730,937 | 2,020,103 |
| A | 7,100,388 | 5,627,373 |
| BBB | 4,739,197 | 3,690,842 |
| BB | 137,575 | 34,507 |
| B | 100,635 | - |
| CCC | 78,160 | - |
| CC | 199,670 | - |
| D | 43,006 | 30,750 |
| Not Rated | 1,584,553 | 4,519,280 |
| | <u>\$ 20,785,282</u> | <u>\$ 18,723,735</u> |

As of December 31, 2012, the System's investments in money market funds were rated AAA by Standard & Poor's; real estate investment trusts were not rated. As of December 31, 2011, the System's investments in money market funds and real estate investment trusts were 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.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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: 40% of its assets be invested in domestic equities, 20% in international equities, 5% in private equities, 15% in hedge funds, 10% in real estate, and 39% in fixed income securities.

At December 31, 2012 and 2011, the System's investment portfolio was concentrated as follows:

| Investment Type | Issuer | % of Portfolio |
|--------------------|---------------------------------------|----------------|
| 2012 | | |
| Large cap equities | D.E. Shaw Group, LLC | 21.48% |
| U.S. agencies | Federal National Mortgage Association | 7.52% |
| 2011 | | |
| Large cap equities | D.E. Shaw Group, LLC | 26.72% |
| U.S. agencies | Federal National Mortgage Association | 8.01% |

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 and a maximum weighted average portfolio maturity of 10 years.

As of December 31, 2012, maturities of the System's debt securities were as follows:

| | Fair Value | Investments Maturities (fair value by years) | | | |
|----------------------|----------------------|--|----------------------|----------------------|----------------------|
| | | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. treasuries | \$ 5,716,588 | \$ 648,379 | \$ 2,268,709 | \$ 1,210,271 | \$ 1,589,229 |
| U.S. treasury strips | 16,364,728 | - | 9,792,332 | 4,883,137 | 1,689,259 |
| U.S. agencies | 27,876,829 | 13,680 | 1,777,196 | 10,636,487 | 15,449,466 |
| Corporate securities | 20,785,282 | 1,197,875 | 8,047,085 | 3,695,321 | 7,845,001 |
| | <u>\$ 70,743,427</u> | <u>\$ 1,859,934</u> | <u>\$ 21,885,322</u> | <u>\$ 20,425,216</u> | <u>\$ 26,572,955</u> |

Money market funds have a rolling maturity date of less than sixty days as of December 31, 2012. Of the above balances, \$1,022,069 of U.S. treasuries securities, \$13,566,825 of U.S. treasury strips securities, \$20,095,250 of U.S. agencies securities, and \$11,162,071 of corporate securities are callable.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

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

| | Fair Value | Investments Maturities (fair value by years) | | | |
|----------------------|----------------------|--|----------------------|----------------------|----------------------|
| | | 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 |
| | <u>\$ 66,361,352</u> | <u>\$ 1,644,326</u> | <u>\$ 17,851,963</u> | <u>\$ 18,846,598</u> | <u>\$ 28,018,465</u> |

Of the above balances, \$8,637,235 of the U.S. agencies securities and \$13,464,497 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:

| | 2012 | 2011 |
|---|------------|--------------|
| Collateralized mortgage obligations: | | |
| Interest-only strips | \$ 920,970 | \$ 1,160,875 |
| Principal-only strips | 1,256,457 | 1,830,805 |
| Mortgage pass-through asset-backed securities | 11,148,265 | 9,521,643 |
| Variable-rate securities | 3,594,060 | 2,336,583 |
| Inverse variable-rate securities | 1,661,707 | 1,604,731 |

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.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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, 2012, the System holds 59 variable-rate investments with a fair value of \$3,594,060. The coupon rates for these investments range from 0.31% to 4.69%; 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 semi-annually; and the coupon multiplier is 1.0 times the benchmark index, plus 0.2% to 19.80%, with a cap ranging from 6.00% to 13.47% and a floor ranging from 0.0% to 3.18%.

As of December 31, 2012, the System holds inverse variable-rate investments with a fair value of \$1,661,707. With inverse variable-rate securities, coupon payments decline as interest rates increase. The coupon rates for these investments range from 4.84% to 15,257.45%; 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 frequency is monthly; the coupon payment frequency is monthly or semi-annually; and coupon multipliers range from negative 1,500 to negative 1.0 times the benchmark index, plus 7.95% to 14.20%, 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, 2011, the System held 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%.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

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%.

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.

Effective April 30, 2012, the System terminated its securities lending agreement.

4. ANNUAL REQUIRED CONTRIBUTION

The County's annual pension cost and net pension obligation for the year ended December 31, 2012 and 2011, were as follows:

| | 2012 | 2011 |
|---|--------------|--------------|
| Annual required contribution | \$ 7,174,819 | \$ 7,387,597 |
| Contribution made | 7,174,819 | 7,387,597 |
| Change in net pension obligation | - | - |
| Net pension obligation, beginning of year | - | - |
| Net pension obligation, end of year | \$ - | \$ - |

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

The annual required contribution for 2012 and 2011 was determined as part of an actuarial valuation of the System as of December 31, 2010 and 2009, 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, 2010, 2011 and 2012 the annual pension cost for the County was \$6,516,006, \$7,387,597 and \$7,174,819, respectively. The County contributed 100% of the annual pension cost and there was no net pension obligation.

5. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the System as of December 31, 2011, the date of the most recent actuarial valuation, was as follows:

| | | | |
|-----------------------------------|-----|--------------------|---------|
| Actuarial accrued liability (AAL) | (1) | \$ 295,091,474 | |
| Actuarial value of assets | (2) | <u>193,721,156</u> | |
| Unfunded AAL (UAAL) | (3) | <u>101,370,318</u> | (1)-(2) |
| Funded ratio | (4) | <u>65.6%</u> | (2)/(1) |
| Covered payroll | (5) | <u>53,246,350</u> | |
| UAAL as % of covered payroll | (6) | <u>190.4%</u> | (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 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. 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.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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 | 12/31/2011 |
| 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 27 years. Sheriff's division liabilities were amortized over 10 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%

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REQUIRED SUPPLEMENTARY INFORMATION

**WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

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) |
|--------------------------|-------------------------------|---|---------------------------|----------------------|---------------------|---|
| 12/31/2002 | \$ 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% |
| 12/31/2011 | 193,721,156 | 295,091,474 | 101,370,318 | 65.6% | 53,246,350 | 190.4% |

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 |
|-------------------------|-------------------------------|------------------------|
| 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% |
| 2012 | 7,174,819 | 100.0% |