

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES  
BENEFICIARY ASSOCIATION**

**Financial Statements**

**For the Years Ended  
December 31, 2008 and 2007**

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

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**INDEPENDENT AUDITORS' REPORT**

March 20, 2009

To the Board of Trustees of the 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, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association'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, 2008 and 2007, 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 Association's net assets held in trust for healthcare benefits at December 31, 2008 and 2007, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



# **FINANCIAL STATEMENTS**

**WASHTENAW COUNTY**  
**VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**  
**Statements of Plan Net Assets**  
**December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Investments, at fair value:		
Equities	\$ 20,430,270	\$ 34,892,337
United States treasuries	159,423	163,687
United States agencies	145,718	192,849
Corporate securities	214,099	595,050
Multi-strategy limited partnership	3,759,783	-
Real estate limited partnership	341,100	-
Bond mutual fund	11,600,986	11,134,764
Money market funds	1,091,249	3,361,662
Total investments	37,742,628	50,340,349
Contributions receivable	6,988,649	-
Accounts receivable	93,883	52,061
Total assets	44,825,160	50,392,410
<b>Liabilities</b>		
Accrued liabilities	2,561,011	32,301
<b>Net assets held in trust for healthcare benefits</b>	<b>\$ 42,264,149</b>	<b>\$ 50,360,109</b>

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

**WASHTENAW COUNTY**  
**VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**  
**Statements of Changes in Plan Net Assets**  
**For the Years Ended December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Additions to net assets</b>		
Contributions:		
Employer	\$ 10,658,749	\$ 9,358,343
On behalf - federal Medicare Part D subsidy	304,606	282,328
Total contributions	10,963,355	9,640,671
Investment income:		
Interest and dividends	1,296,715	1,310,413
Appreciation (depreciation) in fair value of investments	(12,673,025)	2,436,531
Total investment income (loss)	(11,376,310)	3,746,944
Investment management fees	(237,627)	(255,764)
Net investment income (loss)	(11,613,937)	3,491,180
Total additions (net investment loss in excess of contributions)	(650,582)	13,131,851
<b>Deductions from net assets</b>		
Participant benefits	7,264,816	6,286,721
Administrative expenses	180,562	237,062
Total deductions from net assets	7,445,378	6,523,783
<b>Increase (decrease) in net assets</b>	(8,095,960)	6,608,068
Net assets held in trust for healthcare benefits, beginning of year	50,360,109	43,752,041
<b>Net assets held in trust for healthcare benefits, end of year</b>	<b>\$ 42,264,149</b>	<b>\$ 50,360,109</b>

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

# WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

## Notes To Financial Statements

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### 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 2008 and 2007, employee contributions were not required. Employer contributions for 2008 and 2007 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 at the actuarially determined rate. The actual contribution rates for 2008 and 2007 were 13.25% and 11.76%, respectfully, whereas the actuarial contribution rates were 16.57% and 15.02%, respectfully. 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 2008 and 2007, 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:

	<u>2008</u>	<u>2007</u>
Retirees and beneficiaries currently receiving benefits	661	646
Terminated employees entitled to but not yet receiving benefits	24	25
Vested active participants	<u>1,397</u>	<u>1,403</u>
<b>Total membership</b>	<b><u>2,082</u></b>	<b><u>2,074</u></b>

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

**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:

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Investments at fair value, as determined by quoted market prices:</b>		
Equities	\$ 20,430,270	\$ 34,892,337
United States treasuries	159,423	163,687
United States agencies	145,718	192,849
Corporate securities	214,099	595,050
Multi-strategy limited partnership	3,759,783	-
Real estate limited partnership	341,100	-
Bond mutual fund	11,600,986	11,134,764
Money market funds	<u>1,091,249</u>	<u>3,361,662</u>
<b>Total investments</b>	<u><b>\$ 37,742,628</b></u>	<u><b>\$ 50,340,349</b></u>



**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**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 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.

As of December 31, 2008 and 2007, the Association’s investments in securities of U.S. agencies and the bond mutual fund 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:

	<u>2008</u>	<u>2007</u>
A-	\$ -	\$ 78,020
B+	28,624	119,936
B-	8,850	36,450
BBB-	44,750	-
CCC+	-	47,898
Not Rated	131,875	312,746
	<u><u>\$ 214,099</u></u>	<u><u>\$ 595,050</u></u>

The Association’s investments in money market funds were also rated AAA by Standard & Poor’s at December 31, 2008 and 2007.

*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.

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

*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, 2008, the Association's investment portfolio was not exposed to concentration credit risk.

*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, 2008, maturities of the Association's debt securities were as follows:

	<b>Fair Value</b>	<b>Investment Maturities (fair value by years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
U.S. treasuries	\$ 159,423	\$ -	\$ -	\$ -	\$ 159,423
U.S. agencies	145,718	-	-	-	145,718
Corporate securities	214,099	-	33,875	22,326	157,898
	<b>\$ 519,240</b>	<b>\$ -</b>	<b>\$ 33,875</b>	<b>\$ 22,326</b>	<b>\$ 463,039</b>

As of December 31, 2007, maturities of the Association's debt securities were as follows:

	<b>Fair Value</b>	<b>Investment Maturities (fair value by years)</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
U.S. treasuries	\$ 163,687	\$ -	\$ -	\$ -	\$ 163,687
U.S. agencies	192,849	11,314	-	-	181,535
Corporate securities	595,050	-	137,089	-	457,961
	<b>\$ 951,586</b>	<b>\$ 11,314</b>	<b>\$ 137,089</b>	<b>\$ -</b>	<b>\$ 803,183</b>

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

Money market funds have a rolling maturity date of less than sixty days as of December 31, 2008 and 2007. The bond mutual fund has a weighted average maturity of 4.77 years as of December 31, 2008 and 5.26 years as of December 31, 2007. Of the above balances, \$56,752 of the U.S. agencies and \$155,898 of the corporate securities are callable as of December 31, 2008. Of the above balances, \$83,736 of the U.S. agencies and \$457,961 of the corporate securities are callable as of December 31, 2007.

At December 31, 2008, the Association's portfolio of U.S. agencies securities included no inverse variable-rate notes.

At December 31, 2007, the Association's portfolio of U.S. agencies securities includes one inverse variable-rate note with a par value of \$50,000 that matures November 2008. The fair value of the note as of December 31, 2007 was \$1,717. The amount of the monthly coupon is calculated at negative 2.592 times the Eleventh District Monthly Weighted Average Cost of Funds Index (San Francisco) plus 18.144%, with a cap of 18.144%, and a floor of zero; thus, as interest rates increase, the coupon rate paid declines. The frequency of the coupon's reset date is monthly.

**4. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of the Association as of December 31, 2007, the date of the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	(1)	\$ 164,107,793	
Actuarial value of assets	(2)	<u>44,747,254</u>	
Unfunded AAL (UAAL)	(3)	<u>\$ 119,360,539</u>	(1) - (2)
Funded ratio	(4)	<u>27.3%</u>	(2) / (1)
Covered payroll	(5)	\$ 76,546,962	
UAAL as % of covered payroll	(6)	<u>155.9%</u>	(3) / (5)

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

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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 present 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 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 include:

Valuation date	12/31/07
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Healthcare cost trend rate	11% initial; 5% ultimate

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Required Supplementary Information**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) - Entry Age</b>	<b>(3) Unfunded AAL (UAAL) (2-1)</b>	<b>(4) Funded Ratio (1/2)</b>	<b>(5) Covered Payroll</b>	<b>(6) UAAL as a % of Covered Payroll (3/5)</b>
12/31/04	\$ 30,159,739	\$ 150,053,560	\$ 119,893,821	20.1%	\$ 69,804,470	171.8%
12/31/05	31,646,289	149,890,222	118,243,933	21.1%	71,477,954	165.4%
12/31/06	37,653,565	183,743,134	146,089,569	20.5%	75,492,444	193.5%
12/31/07	44,747,254	164,107,793	119,360,539	27.3%	76,546,962	155.9%

**SCHEDULE OF CONTRIBUTIONS FROM THE  
EMPLOYER AND OTHER CONTRIBUTING ENTITY**

<b>Year Ended</b>	<b>Annual Required Contribution</b>	<b>Annual Actual Contribution</b>	<b>Percentage Contributed</b>
2006	\$ 12,013,367	\$ 8,035,887	66.9%
2007	11,952,578	9,640,671	80.7%
2008	13,329,469	10,963,355	82.2%