Washtenaw County Voluntary Employees Beneficiary Association

Years Ended December 31, 2012 and 2011

Financial Statements

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WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

March 26, 2013

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the *Washtenaw County Voluntary Employees Beneficiary Association* (the "Association") 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 healthcare 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, as listed in the table of contents, 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.

Rehmann Robson

FINANCIAL STATEMENTS

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Statements of Plan Net Position

December 31, 2012 and 2011

	2012	2011
Assets		
Investments, at fair value:		
Equities	$ 32,836,419	$ 25,820,689
Corporate securities	188,760	264,271
Multi-strategy limited partnership	4,620,597	4,365,523
Real estate limited partnership	1,027,311	969,923
Hedge funds limited partnership	3,748,782	3,443,992
Bond mutual fund	23,369,864	23,030,484
Money market funds	12,073,000	8,254,597
Total investments	77,864,733	66,149,479
Accounts receivable	52,963	64,714
Total assets	77,917,696	66,214,193
Liabilities		
Accrued liabilities	46,494	60,520
Net position held in trust for healthcare benefits	$ 77,871,202	$ 66,153,673

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

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Statements of Changes in Plan Net Position

For the Years Ended December 31, 2012 and 2011

	2012	2011
Additions to net position		
Contributions:		
Employer	$ 13,079,918	$ 12,001,663
On behalf - federal Medicare Part D subsidy	346,410	970,602
Total contributions	13,426,328	12,972,265
Investment income:		
Interest and dividends	1,581,840	1,450,051
Appreciation (depreciation) in fair value of investments	4,745,856	(2,900,120)
Total investment income (loss)	6,327,696	(1,450,069)
Investment management fees	(363,323)	(253,966)
Net investment income (loss)	5,964,373	(1,704,035)
Other income - retiree medical premiums	15,511	4,954
Total additions	19,406,212	11,273,184
Deductions from net position		
Participant benefits	7,486,926	7,884,050
Administrative expenses	201,757	313,685
Total deductions from net position	7,688,683	8,197,735
Change in net position	11,717,529	3,075,449
Net position held in trust for healthcare benefits, beginning of year	66,153,673	63,078,224
Net position held in trust for healthcare benefits, end of year	$ 77,871,202	$ 66,153,673

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 2012 and 2011, employee contributions were not required. Employer contributions for 2012 and 2011 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 2012 were 17.80% for COAM members, 17.83% for ERS Sheriff and POAM members, and 16.99% for general members. The 16.99% rate was equal to the actuarial rate. The actual contribution rate for all members during 2011 was 15.81%. 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 2012 and 2011, 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:

	2012	2011
Retirees and beneficiaries currently receiving benefits	835	762
Terminated employees entitled to but not yet receiving benefits	32	28
Active participants	1,396	1,284
Total membership	2,263	2,074

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 valued at their fair values as determined by the custodian under the discretion of the Association's Board of Trustees, with the assistance of a valuation service.

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:

	2012	2011
Investments at fair value, as determined by quoted market prices:		
Equities	$ 32,836,419	$ 25,820,689
Corporate securities	188,760	264,271
Multi-strategy limited partnership	4,620,597	4,365,523
Real estate limited partnership	1,027,311	969,923
Hedge funds limited partnership	3,748,782	3,443,992
Bond mutual fund	23,369,864	23,030,484
Money market funds	12,073,000	8,254,597
Total investments	$ 77,864,733	$ 66,149,479

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.

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

	2012	2011
B	$ -	$ 84,240
CC	20,140	-
CCC+	-	92,625
CCC	93,875	36,180
CCC-	-	24,579
Not Rated	74,745	26,647
	$ 188,760	$ 264,271

The Association's investments in money market funds were rated AAA by Standard & Poor's at December 31, 2012 and 2011. 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, 2012 and 2011, the Association's investment portfolio was concentrated as follows:

Investment Type	Issuer	% of Portfolio
2012		
Multi-strategy	Hatteras Core Alternatives TEI Institutional Fund, Limited Partnership	5.93%
Money market funds	Various	15.51%
2011		
Multi-strategy	Hatteras Core Alternatives TEI Institutional Fund, Limited Partnership	6.60%
Hedge funds	Pinehurst Institutional Limited Partnership	5.21%
Money market funds	Various	12.48%

Notes To Financial Statements

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, 2012, 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	$ 188,760	$ -	$ 94,885	$ -	$ 93,875

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

Money market funds have a rolling maturity date of less than sixty days as of December 31, 2012 and 2011. The JP Morgan Core bond mutual fund has a weighted average maturity of 6.04 years as of December 31, 2012 and 5.70 years as of December 31, 2011. The Templeton Global bond mutual fund has a weighted average maturity of 2.76 years as of December 31, 2012 and 2.80 years as of December 31, 2011. Of the above balances, $93,875 of the corporate securities was callable as of December 31, 2012 and $213,045 was callable as of December 31, 2011.

4. FUNDED STATUS AND FUNDING PROGRESS

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

Actuarial accrued liability (AAL)	(1)	$ 214,054,100	
Actuarial value of assets	(2)	65,592,609	
Unfunded AAL (UAAL)	(3)	148,461,491	(1)-(2)
Funded ratio	(4)	30.6%	(2)/(1)
Covered payroll	(5)	72,081,777	
UAAL as % of covered payroll	(6)	206.0%	(3)/(5)

Notes To Financial Statements

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.

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	Entry-Age
Amortization method	Level percentage of pay, closed
Remaining amortization period	26 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

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%
12/31/2011	65,592,609	214,054,100	148,461,491	30.6%	72,081,777	206.0%

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%
2012	13,079,918	100.0%