WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial Statements

For the Years Ended
December 31, 2010 and 2009

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WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 18, 2011

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, 2010 and 2009, 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, 2010 and 2009, 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 System's net assets held in trust for benefits at December 31, 2010 and 2009, 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.

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FINANCIAL STATEMENTS

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets

December 31, 2010 and 2009

	2010	2009
Assets		
Investments, at fair value:		
Equities	$ 108,574,443	$ 93,003,792
United States treasuries	3,546,094	2,621,455
United States treasury strips	11,445,575	10,529,604
United States agencies	23,308,103	27,693,057
Corporate securities	18,412,881	18,313,105
Real estate investment trusts	13,803,854	6,156,966
Mutual funds	22,234,267	18,879,620
Money market funds	3,852,377	11,135,369
Total investments	205,177,594	188,332,968
Accrued interest and dividends	372,852	419,263
Total assets	205,550,446	188,752,231
Liabilities		
Accounts payable and accrued expenses	315,440	208,979
Net assets held in trust for pension benefits (a schedule of funding progress is presented on Page 14)	**$ 205,235,006**	**$ 188,543,252**

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

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2010 and 2009

	2010	2009
Additions		
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	$ 18,814,308	$ 22,061,564
Interest and dividends	4,509,652	4,119,789
Total investment income	23,323,960	26,181,353
Investment management fees	(904,453)	(550,978)
Net investment income	22,419,507	25,630,375
From securities lending activities:		
Gross earnings	51,596	78,846
Borrower rebates	2,355	125
Securities lending fees	(25,116)	(32,682)
Net investment income from securities lending activities	28,835	46,289
Total net investment income	22,448,342	25,676,664
Contributions:		
Washtenaw County	6,516,006	6,752,093
Participants	5,593,655	5,842,469
Total contributions	12,109,661	12,594,562
Other additions - eligible transfers from defined contribution plan	-	14,218,601
Other additions	1,609	-
Total additions	34,559,612	52,489,827
Deductions		
Participant benefits	16,836,560	15,619,510
Administrative expenses	381,409	424,625
Participant refunds	649,889	460,937
Total deductions	17,867,858	16,505,072
Net additions to net assets held in trust for benefits	16,691,754	35,984,755
Net assets held in trust for benefits, beginning of year	188,543,252	152,558,497
Net assets held in trust for benefits, end of year	$ 205,235,006	$ 188,543,252

The accompanying notes are an integral part of these 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"). Certain employees hired on or after January 1, 1989, had been covered by a separate defined contribution plan (i.e., the Washtenaw County Money Purchase Pension Plan (MPPP)) but that has changed as described below. 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:

	2010	2009
Retirees and beneficiaries currently receiving benefits	737	703
Terminated employees entitled to but not yet receiving benefits	22	24
Vested active participants	1,063	1,065
Total membership	**1,822**	**1,792**

For the year ended December 31, 2010, participating Sheriff and non-Sheriff department members are required to contribute 7.5% and 8.0%, respectively, of their annual compensation to the System for pension benefits. For the year ended December 31, 2009, participating Sheriff and non-Sheriff department members are required to contribute 7.0% 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, 2010, represents 987.60% and 8.70%, respectively, of annual covered payroll. The County's contribution for the Sheriff department and non-Sheriff members for the year ended December 31, 2009, represents 480.50% and 8.57%, 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.

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 that do not have established market values are reported at estimated fair value; 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)

	2010	2009
Equities:		
Not on securities loan	$ 99,078,705	$ 82,356,834
On securities loan	9,495,738	10,646,958
U.S. treasuries	3,546,094	2,621,455
U.S. treasury strips	11,445,575	10,529,604
U.S. agencies:		
Not on securities loan	20,735,142	26,229,684
On securities loan	2,572,961	1,463,373
Corporate securities	18,412,881	18,313,105
Real estate investment trusts	13,803,854	6,156,966
Mutual funds	22,234,267	18,879,620
Money market funds	3,852,377	11,135,369
Total investments	**$ 205,177,594**	**$188,332,968**

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 ($2,834,399 and $3,102,167 of U.S. agencies are explicitly guaranteed as of December 31, 2010 and 2009, respectively) by the U.S. government were rated AAA by Standard & Poor's, except for $150,636 and $157,585 which were rated A.

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

	2010	**2009**
AAA	$ 5,747,705	$ 5,797,526
AA	2,306,283	2,309,016
A	5,041,873	5,378,299
BBB	3,335,483	3,199,715
BB	305,230	315,908
B	-	94,370
CCC	240,910	156,910
CC	30,835	-
Not rated	1,404,562	1,061,361
	$18,412,881	**$18,313,105**

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.

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, 2010 and 2009, the System's investment portfolio was concentrated as follows:

Investment Type	Issuer	% of Portfolio
2010		
Large cap equities	D. E. Shaw Group Limited Partnership	30.40%
Fixed income	Federal National Mortgage Association	6.50%
2009		
Large cap equities	D. E. Shaw Group Limited Partnership	30.60%
Fixed income	Federal National Mortgage Association	6.30%

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

		Investment 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.

As of December 31, 2009, maturities of the System's debt securities were as follows:

		Investment Maturities (fair value by years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	$ 2,621,455	$ -	$ 49,855	$ 1,495,809	$ 1,075,791
U.S. treasury strips	10,529,604	-	4,900,889	5,490,132	138,583
U.S. agencies	27,693,057	168	848,750	6,322,973	20,521,166
Corporate securities	18,313,105	1,543,641	6,250,365	4,055,214	6,463,885
	$ 59,157,221	**$ 1,543,809**	**$ 12,049,859**	**$ 17,364,128**	**$ 28,199,425**

Of the above balances, $10,374,554 of the U.S. agencies securities and $13,237,573 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:

	2010	2009
Collateralized mortgage obligations:		
Interest-only strips	$ 1,435,209	$ 2,477,273
Principal-only strips	2,317,667	2,837,788
Mortgage pass-through asset-backed securities	5,956,825	7,379,451
Variable-rate securities	2,000,932	2,673,088
Inverse variable-rate securities	2,617,104	3,271,282

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.

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, 2010, the System holds 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), and 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 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%.

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%.

As of December 31, 2009, the System held 31 variable-rate investments with a fair value of $2,673,088. The coupon rates for these investments range from 0.0% to 18.675%; the benchmark indexes include one-month, six-month, and twelve-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), and Federal Reserve US H.15 Treasury Note Constant Maturity One Year; and the coupon payment frequency is monthly.

As of December 31, 2009, the System held 78 inverse variable-rate investments with a fair value of $3,271,282. With inverse variable-rate securities, coupon payments decline as interest rates increase. The coupon rates for these investments range from 4.82% to 99.99%; the benchmark indexes include one-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), and three-month treasury rate; and the coupon payment frequency is monthly.

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, 2010 and 2009, were as follows:

	2010	2009
Annual required contribution / retirement benefit cost	$ 6,516,006	$ 6,752,093
Contribution made	6,516,006	6,752,093
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 2010 and 2009 was determined as part of an actuarial valuation of the System as of December 31, 2008 and 2007, 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, 2008, 2009 and 2010 the annual retirement benefit cost for the County was $5,359,824, $6,752,093 and $6,516,006, 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, 2009, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	(1)	$ 271,514,028	
Actuarial value of assets	(2)	201,112,644	
Unfunded AAL (UAAL)	(3)	$ 70,401,384	(1) - (2)
Funded ratio	(4)	74.1%	(2) / (1)
Covered payroll	(5)	$ 58,041,444	
UAAL as % of covered payroll	(6)	121.3%	(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. 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	12/31/09
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 29 years. Sheriff's division liabilities were amortized over 9 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

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (Overfunded) (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
2000	$ 156,959,460	$ 152,942,076	$ (4,017,384)	102.6%	$ 11,589,561	-34.7%
2001	163,564,179	166,381,778	2,817,599	98.3%	13,843,557	20.4%
2002	157,473,610	169,389,000	11,915,390	93.0%	12,836,355	92.8%
2003	157,237,691	173,989,111	16,751,420	90.4%	12,332,026	135.8%
2004	150,576,655	177,524,551	26,947,896	84.8%	12,134,962	222.1%
2005	145,093,140	177,684,410	32,591,270	81.7%	11,076,300	294.2%
2006	145,235,953	181,591,924	36,355,971	80.0%	10,243,828	354.9%
2007	150,229,089	190,725,826	40,496,737	78.8%	9,354,679	432.9%
2007 *	210,446,657	265,463,304	55,016,647	79.3%	57,943,478	94.9%
2008	209,556,482	270,299,282	60,742,800	77.5%	61,746,106	98.4%
2009	201,112,644	271,514,028	70,401,384	74.1%	58,041,444	121.3%

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 EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
2001	$ 1,449,631	$ 1,449,631	100.0%
2002	1,456,780	1,456,780	100.0%
2003	1,651,416	1,651,416	100.0%
2004	2,451,764	2,451,764	100.0%
2005	2,700,525	2,700,525	100.0%
2006	3,845,384	3,845,384	100.0%
2007	4,827,249	4,827,249	100.0%
2008	5,359,824	5,359,824	100.0%
2009	6,752,093	6,752,093	100.0%
2010	6,516,006	6,516,006	100.0%