

Wayne County Employees' Retirement System

Defined Contribution Plan

Years Ended
September 30,
2013 and 2012

Financial
Statements

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

■ Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statements of Plan Net Position	8
Statements of Changes in Plan Net Position	9
Notes to Financial Statements	10



INDEPENDENT AUDITORS' REPORT

January 22, 2014

To the Wayne County Board of Commissioners
and the Wayne County Retirement Commission
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the *Wayne County Employees' Retirement System Defined Contribution Plan* (the "Plan"), a pension trust fund of the County of Wayne, Michigan, as of September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

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.

Independent Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from 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 the auditors' 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 Plan'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 Plan'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 net position of the Plan, as of September 30, 2013 and 2012, and the respective changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Wayne County Employees' Retirement System Defined Contribution Plan pension trust fund and do not purport to, and do not, present fairly the financial position of the County of Wayne as of September 30, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, 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 Lohman LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Management's Discussion and Analysis

This section of the annual report of the Wayne County Employees' Retirement System Defined Contribution Plan (the "Plan") presents management's discussion and analysis of the Plan's financial performance during the plan years that ended on September 30, 2013, 2012 and 2011. Please read it in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- The Plan's total net position increased by \$36.8 million, or 11.0%, over the course of the plan year. Net assets are held in trust to meet future benefit payments to plan participants.
- Plan benefits are funded by contributions from Wayne County and plan participants, as specified by the plan option selected, as well as by the investment income earned on the Plan's assets.
- Total additions to net position increased by \$3.3 million, or 5.0%, increasing from \$65.4 million for the year ended September 30, 2012 to \$68.7 million for the year ended September 30, 2013.
- The fair value of investments changed favorably by \$3.7 million, from a gain of \$38.1 million for 2012 to a gain of \$41.8 million for 2013. The net appreciation in the fair value of investments for the current year is attributable to continuing improvement in financial markets.
- Total deductions from net position decreased by \$4.5 million, from \$36.4 million for the year ended September 30, 2012 to \$31.9 million for the year ended September 30, 2013, which is primarily attributable to less participant distributions and withdrawals during the current year.

Overview of the Financial Statements

This annual report contains the Plan's financial statements, which consist of the statements of plan net position and statements of changes in plan net position. These financial statements report information about the Plan as a whole using accounting methods similar to those used by private-sector pension plans. The statements of plan net position include all of the Plan's assets and liabilities. All of the current year increases and decreases in the Plan's net position are accounted for in the statements of changes in plan net position, regardless of when cash is received or paid.

These financial statements report the Plan's net position and how they have changed. Net position represents the difference between the Plan's assets and liabilities.

The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Plan as a Whole

Table 1 reflects the condensed statements of plan net position as of September 30, 2013, 2012, and 2011:

	Net Position (in millions)		
	2013	2012	2011
Assets			
Investments	\$ 371.1	\$ 334.3	\$ 305.3
Other assets	0.4	0.4	0.4
Net position held in trust for pension benefits	\$ 371.5	\$ 334.7	\$ 305.7

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Management's Discussion and Analysis

The Plan's total assets as of September 30, 2013 were \$371.5 million and were mostly comprised of investments in registered investment companies or mutual funds. Total assets increased by \$36.8 million, or 11.0%, from the prior year. The net appreciation in the fair value of investments for the current year is attributable to continuing improvement in the financial markets. Total assets for September 30, 2012 and 2011 were \$334.7 and \$305.7, respectively.

Table 2 reflects the condensed statements of changes in plan net position for the years ended September 30, 2013, 2012, and 2011:

	Change in Net Position (in millions)		
	2013	2012	2011
Additions			
Contributions	\$ 21.1	\$ 21.7	\$ 23.1
Investment income:			
Net appreciation (depreciation)			
in fair value of investments	41.8	38.1	(4.8)
Other investment income	5.8	5.6	6.2
Total additions	68.7	65.4	24.5
Deductions			
Participant distributions and withdrawals	31.4	36.0	29.1
Administrative expenses	0.5	0.4	0.5
Total deductions	31.9	36.4	29.6
Change in net position	36.8	29.0	(5.1)
Net position held in trust			
for pension benefits:			
Beginning of year	334.7	305.7	310.8
End of year	\$ 371.5	\$ 334.7	\$ 305.7

Additions to Plan Net Position

The net position held in trust for pension benefits is funded by contributions from Wayne County and the Plan's participants, as well as through investment earnings. Contributions and other investment income have been consistent for the last three years. Contributions and other investment income for the year ended September 30, 2013 totaled \$26.9 million, compared to \$27.3 million and \$29.3 million for the years ended September 30, 2012 and 2011, respectively.

Net Appreciation (Depreciation)

Net appreciation in the fair value of investments was \$41.8 million for the year ended September 30, 2013, compared to net appreciation of \$38.1 million and net depreciation of \$4.8 million for the years ended September 30, 2012 and 2011. The net appreciation or depreciation in the fair value of investments is added to or deducted from plan net position. The net appreciation in the fair value of investments for the current year is attributable to the improving financial markets.

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Management's Discussion and Analysis

Deductions from Plan Net Position

The deductions of the Plan include the payment of participant distributions, withdrawals, and administrative expenses. Total deductions for the year ended September 30, 2013 were \$31.9 million, a decrease of \$4.5 million when compared to the prior year. Total deductions for the years ended September 30, 2012 and 2011 were \$36.4 million and \$29.6 million, respectively. This decrease is primarily due to lower participant distributions and withdrawals during the current year. The prior year had more distributions and withdrawals related to employees transferring and purchasing service into the hybrid plans.

Economic Factors

The financial markets have been volatile over the last several years. The current year saw continued improvement in financial markets.

Financial Contact

This financial report is designed to present its users with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the funds it holds. If you have any questions about this report or need additional financial information, contact the Wayne County Employees' Retirement System, 28 West Adams, Suite 1900, Detroit, Michigan 48226.

BASIC FINANCIAL STATEMENTS

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Statements of Plan Net Position September 30, 2013 and 2012

	2013	2012
Assets		
Investments, at fair value (Note 3):		
Participant-directed investments:		
Debt mutual funds	\$ 109,284,426	\$ 110,465,864
Equity mutual funds	235,031,604	196,797,365
Participant loans receivable	26,778,449	27,025,546
Total investments	<u>371,094,479</u>	<u>334,288,775</u>
Equity in Wayne County pooled cash (Note 3)	415,084	422,704
Due from other Wayne County component units and funds	<u>18,546</u>	<u>10,646</u>
Net position held in trust for pension benefits	<u><u>\$ 371,528,109</u></u>	<u><u>\$ 334,722,125</u></u>

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

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Statements of Changes in Plan Net Position

For the Years Ended September 30, 2013 and 2012

	2013	2012
Additions		
Contributions:		
Employer, net of forfeitures	\$ 15,641,502	\$ 16,228,448
Employees	5,423,715	5,509,061
Total contributions	<u>21,065,217</u>	<u>21,737,509</u>
Investment income:		
Net appreciation in fair value of investments	41,812,076	38,123,823
Interest and dividends	5,373,208	5,162,878
Other investment income	472,655	411,383
Total investment income	<u>47,657,939</u>	<u>43,698,084</u>
Total additions	<u>68,723,156</u>	<u>65,435,593</u>
Deductions		
Participant benefit payments and distributions	31,436,719	35,951,277
Administrative expenses	480,453	426,636
Total deductions	<u>31,917,172</u>	<u>36,377,913</u>
Change in net position	36,805,984	29,057,680
Net position held in trust for pension benefits		
Beginning of year	<u>334,722,125</u>	<u>305,664,445</u>
End of year	<u>\$ 371,528,109</u>	<u>\$ 334,722,125</u>

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

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Notes to Financial Statements

1. PLAN DESCRIPTION

General. The Wayne County Employees' Retirement System Defined Contribution Plan (the "Plan") is a single-employer defined contribution public employee retirement plan governed by the Wayne County Employees' Retirement System ("WCERS") and created under Enrolled Ordinance No. 86-486 (November 20, 1986), as amended, of the County of Wayne (the "County"). WCERS was established by the County to provide retirement, survivor, and disability benefits to the County's employees, including those of the primary government (i.e., the general county) as well as of the discretely presented component units, including but not limited to the Wayne County Airport Authority (WCAA). WCERS is considered part of the County financial reporting entity and is included in the County's comprehensive annual financial report as a collection of fiduciary pension trust funds.

The administration, management and responsibility for the proper operation of the Plan, and for interpreting and making effective the provisions of the Plan, is vested in the trustees of the Wayne County Retirement Commission. The Plan is exempt from the requirements of Title 1 of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, and, as such, is not subject to the reporting and disclosure requirements of ERISA.

Effective October 1, 2001, WCERS established the Wayne County Hybrid Retirement Plan 5 ("Plan Option 5"), which contains both defined contribution and defined benefit components. Participants in the plan option previously in existence ("Plan Option 4") could elect to transfer their account balances to Plan Option 5, if authorized, during specific time periods noted within collective bargaining agreements.

Effective October 1, 2008, WCERS established another hybrid defined contribution plan option ("Plan Option 6"), which contains both defined contribution and defined benefit components. Participants in Plan Option 5 could elect to transfer their account balances to Plan Option 6, if authorized, during specific time periods noted within collective bargaining agreements.

New employees could elect to participate in Plan Option 4 through September 30, 2001, except for new executives, who may continue to elect participation in Plan Option 4. Effective October 1, 2001, only Plan Option 5 is available to new County employees other than new executives; Plan Option 4 is closed to other new hires. Effective September 2012, only Plan Option 4 is available to new WCAA employees. Because there is no legal requirement to segregate the assets relating to Plan Options 4, 5 or 6 in paying benefits, the accompanying financial statements include the net position and changes in net position relating to Plan Option 4, as well as the defined contribution component of Plan Options 5 and 6. The defined benefit portion of Plan Options 5 and 6 are included in the financial statements of the WCERS Defined Benefit Plan.

Contributions. The Plan's benefits are funded by contributions from the County and participants, as specified by the plan option selected, and by the investment income earned on the Plan's assets. County and participant contributions under the various plan options are determined as follows:

Plan Option 4. Employees contribute from 1.0 percent up to 4.0 percent of gross pay. The County makes matching contributions at a rate ranging from \$2 to \$5 for each \$1 contributed by each employee, depending upon the employee's coverage group.

Plan Option 5. Employees contribute from two percent to three percent of gross pay, depending on the employee's coverage group. The County makes matching contributions at a rate equal to the amount contributed by each employee. Under certain employee coverage groups, employees contribute on a voluntary basis with no employer match, subject to applicable Internal Revenue Service rules and regulations.

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Notes to Financial Statements

Plan Option 6. Employees contribute on a voluntary basis with no employer match, subject to applicable Internal Revenue Service rules and regulations.

Eligibility. All full-time, permanent County employees are eligible to join the Plan. Those employees hired prior to July 1, 1984 were eligible to transfer from the WCERS Defined Benefit Plan to the Plan through September 30, 2002. Effective October 1, 2001, the County closed Plan Option 4 to new hires, except executives. Effective September 2012, only Plan Option 4 is available to new WCAA employees. Plan Option 5 is available to all persons hired after September 30, 2001. Plan Option 6 is available only upon transfer from Plan Option 5, if authorized, during specific time periods noted within collective bargaining agreements.

At September 30, 2013 and 2012, there were 4,291 and 4,369 active plan participants, respectively.

Investment Options. Both the participants' and County's contributions are invested in one of several investment funds. Effective September 1, 2005, participants may choose to either self-direct their investments or to enroll in one of three investment programs managed by the Plan's custodian with specific investment strategies: aggressive, moderate and conservative. Assets in each of these programs are invested in various mutual funds in specific proportions based on each participant's choice of time horizon and personal investment style. Participants who choose to self-direct their investments have several investment options in various mutual funds. Participants may elect to invest in any of the programs or self-directed funds in one-percent increments and may change contribution percentages on a daily basis.

Participant Accounts. Each participant's account is credited with the participant's and County's contributions and an allocation of Plan earnings. Allocations are based on the relationship of a participant's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Vesting. The County's contribution is 100 percent invested in the same funds and in the same proportions as selected by the employees. Each employee is free to transfer any portion of his or her account balance to any of the funds in one-percent increments. Employees are immediately vested as to participant contributions and are vested as to County contributions as follows:

Plan Option 4. After three years of service, except for executive members, who are vested after two years of service.

Plan Options 5 and 6. Fifty percent after one year of service, 75 percent after two years of service, and 100 percent after three years of service.

Forfeitures. Nonvested County contributions are forfeited upon termination of employment. Such forfeitures are used to cover certain administrative expenses of the Plan.

Participant Loans. Participants in Plan Option 4 and some participants in Plan Options 5 and 6, depending on applicable collective bargaining agreements, are eligible for a loan from the Plan. An eligible active participant who has a vested account balance of at least \$2,000 is eligible for a loan from the Plan. The maximum loan amount may not exceed the smaller of 50 percent of the employee's vested amount or \$50,000, less the highest loan balance over the previous 12-month period, and is required to be repaid in five years (except where the loan is for the purchase of a principal residence, in which case, the loan may be repaid over 15 years). Interest on a loan is at the prime rate, plus 1% as reported in the Wall Street Journal.

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Notes to Financial Statements

Administrative Expenses. In accordance with the provisions of the Plan, certain administrative expenses, unless paid by the County, are paid from Plan assets.

Payment of Benefits. Benefits may be paid to a participant or beneficiary upon retirement, total and permanent disability, death, or termination of employment in a lump-sum amount equal to the value in the participant's account in accordance with Plan provisions. A participant who leaves for reasons other than termination of employment may elect to receive his or her benefit in monthly payments over the participant's or beneficiary's lifetime through transfer of the participant's benefit entitlement to the WCERS Defined Benefit Plan or through installment payments generated by the Plan's third-party recordkeeper.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The Plan's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus.

Valuation of Investments and Income Recognition. Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed debt quotations are provided by a national brokerage pricing service. 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 Retirement Commission, with the assistance of a valuation service.

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the trade date, which is the date when the transaction is initiated.

3. DEPOSITS AND INVESTMENTS

The authority for the investment options offered to participants under the Plan rests with the Retirement Commission. Investments made are subject to statutory regulations imposed under the Michigan Public Pension Investment Act 314 of 1965, as amended (Act 55, P.A. 1982), and investment policy established by the Retirement Commission. The Investment Act incorporates the prudent-person rule and requires investment fiduciaries to act solely in the interest of the Plan's participants and beneficiaries. The Retirement Commission has authority to allow participants to invest the Plan's assets in common and preferred stock; obligations of the United States, its agencies, or United States government-sponsored enterprises; obligations of any state or political subdivision of a state having the power to levy taxes; bankers' acceptances; certificates of deposit; commercial paper; repurchase agreements; reverse repurchase agreements; real and personal property; mortgages; and certain other investments.

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Notes to Financial Statements

The Plan's investments are summarized as follows as of September 30:

	2013	2012
Debt mutual funds		
Guaranteed income fund	\$ 92,681,730	\$ 93,622,216
Bond mutual funds	<u>16,602,696</u>	<u>16,843,648</u>
Total debt funds	109,284,426	110,465,864
Equity mutual funds	235,031,604	196,797,365
Participants loans receivable	<u>26,778,449</u>	<u>27,025,546</u>
Total investments	<u>\$ 371,094,479</u>	<u>\$ 334,288,775</u>

The Plan's deposits and investments are subject to various types of risk as discussed below.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Plan's deposits may not be returned to the Plan. State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

The Plan's carrying amount of deposits of \$415,084 and \$422,704 as of September 30, 2013 and 2012, respectively, are maintained in the County's pooled cash account maintained by the Wayne County Treasurer. In accordance with the County's investment policy, all deposits are uncollateralized and held in the County's name. The County evaluates each financial institution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. In addition, the County's investment policy places concentration limits on the total amount deposited with a single financial institution. Due to the dollar amounts of cash deposits in the County's pooled cash account and limits of FDIC insurance, Plan management believes it is impractical to obtain FDIC insurance for all bank deposits.

Investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the entity, and are held by either the counterparty or the counterparty's trust department or agent, but not in the entity's name.

The Plan's investment policy requires that (a) investments are held by a third-party safe-keeper in the Plan's name; (b) investments are held by a trustee in the Plan's name; or (c) investments are part of a mutual fund. The Plan's investment policy also requires that the safekeeping institution shall annually provide a copy of its most recent report on internal controls (also referred to as a "SOC 1 report").

As of September 30, 2013 and 2012, none of the Plan's investments were subject to custodial credit risk due to one of the following: (a) investments were held by a third-party safe-keeper in the Plan's name; (b) investments were held by a trustee in the Plan's name; or (c) investments were part of a mutual fund.

WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED CONTRIBUTION PLAN

Notes to Financial Statements

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income or debt security investments will vary unfavorably as a result of a change in interest rates. The Plan's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The interest rate risk information, expressed as weighted average maturities, is presented in the following schedule.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As the Plan investments are participant-directed subject to certain quality criteria, the investment policy places no restrictions greater than what is allowed under applicable statutes. Ratings are not required for U.S. treasuries or certain money market funds.

The Plan has investments in a guaranteed income fund that has an average portfolio credit rating of AA- and AA- by Standard & Poor's and weighted average maturity of 3.7 and 3.1 years at September 30, 2013 and 2012, respectively.

The Plan has investments in bond mutual funds that have the following portfolio characteristics as of September 30:

	Amount	Standard & Poor's Credit Rating	Weighted Average Maturity
2013	\$ 2,001,533	AAA	4.03
	12,271,910	AAA	5.58
	<u>2,329,253</u>	BB	6.66
	<u>\$ 16,602,696</u>		
2012	\$ 2,379,695	AAA	4.01
	12,563,477	AAA	6.05
	<u>1,900,476</u>	BB	12.92
	<u>\$ 16,843,648</u>		

Finally, the participant loans have a weighted average maturity of 3.1 and 3.1 years at September 30, 2013 and 2012, respectively.

