

**MONROE COUNTY  
EMPLOYEES' RETIREMENT  
SYSTEM**

**Financial Statements**

**For The Years Ended  
December 31, 2006 and 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT**

May 30, 2007

To the Board of Trustees  
Monroe County Employees' Retirement System  
Monroe, Michigan

We have audited the accompanying statements of plan net assets of the *Monroe County Employees' Retirement System* (the "System") as of December 31, 2006 and 2005, 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 audits 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 and the changes in financial position of Monroe County as of and for the years ended December 31, 2006 and 2005, 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, 2006 and 2005, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplemental 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**

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Plan Net Assets

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Investments, at fair value:		
U.S. treasuries	\$ 15,358,063	\$ 13,492,879
U.S. agencies	18,753,941	19,816,093
Foreign government bonds	12,184,739	5,425,814
Corporate bonds	22,726,911	24,271,721
Bond mutual fund	1,450,896	1,008,562
Domestic equities	50,966,719	57,236,570
International equities	9,833,815	9,337,421
American depository receipts	33,205,965	25,817,420
Real estate investment trusts	1,091,555	-
Collateralized mortgage obligations	2,039,359	-
Money market	9,335,498	6,251,335
Total investments	<u>176,947,461</u>	<u>162,657,815</u>
Contributions receivable	40,752	188,609
Accounts receivable	55,256	48,124
Accrued interest and dividends	959,825	783,115
	<u>178,003,294</u>	<u>163,677,663</u>
<b>Liabilities</b>		
Accounts payable / accrued expenses	316,931	242,600
Foreign currency forward contracts payable	154,112	142,944
	<u>471,043</u>	<u>385,544</u>
<b>Net assets held in trust for pension benefits</b>		
<b>(a schedule of funding progress is</b>		
<b>presented on Page 12)</b>	<u><u>\$ 177,532,251</u></u>	<u><u>\$ 163,292,119</u></u>

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

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2006 and 2005

	2006	2005
<b>Additions</b>		
Investment income:		
<i>From investing activities:</i>		
Net appreciation in		
fair value of investments	\$ 13,590,464	\$ 8,243,059
Interest and dividends	5,715,548	5,121,804
Total investment gain	19,306,012	13,364,863
Investment management fees	(1,061,366)	(958,657)
Net gain from investing activities	18,244,646	12,406,206
<i>From securities lending activities:</i>		
Gross earnings	1,907,830	973,290
Borrower rebates	(1,788,873)	(884,915)
Securities lending fees	(47,607)	(35,340)
Net income from securities lending activities	71,350	53,035
Total net investment gain	18,315,996	12,459,241
Contributions:		
Employer	3,170,195	2,034,222
Participants:		
Regular	329,125	312,868
Time purchase	30,434	16,279
Total contributions	3,529,754	2,363,369
Total additions	21,845,750	14,822,610
<b>Deductions</b>		
Participant benefits	6,724,484	6,084,154
Participant refunds	612,617	835,724
Administrative expenses	268,517	299,580
Total deductions	7,605,618	7,219,458
Net additions to net assets held in trust for benefits	14,240,132	7,603,152
Net assets held in trust for benefits, beginning of year	163,292,119	155,688,967
<b>Net assets held in trust for benefits, end of year</b>	<b>\$ 177,532,251</b>	<b>\$ 163,292,119</b>

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

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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### 1. PLAN DESCRIPTION

The Monroe County Employees' Retirement System (the "System") is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System Board of Trustees (the "Board"). The System primarily provides pension, disability and death benefits, covering substantially all full-time employees of Monroe County and its component units, including:

- Monroe County Library System
- Monroe County Road Commission
- Monroe County Drain Commissioner
- Monroe County Agency
- Monroe County Community Mental Health Authority

The System was adopted by Monroe County pursuant to Michigan Compiled Laws, Section 46.12a. Benefit provisions are established by and may be amended by the Board as permitted by County Ordinances. The System is reported as a pension trust fund in the County's financial statements.

System membership consisted of the following at December 31, 2005 (the date of the latest actuarial valuation):

Retirees and beneficiaries currently receiving benefits	434
Terminated employees entitled to but not yet receiving benefits	127
Active participants	974

Central Dispatch supervisors and Sheriff Department employees (consisting of deputies and command, jail and corrections officers) are required to contribute 3.0% of the first \$7,800 in earnings and 5.0% of earnings thereafter to the System. Road Commission employees are required to contribute 3.1% of their annual earnings. All other County employees, along with employees of the Library System, Drain Commissioner, County Agency and Community Mental Health Authority, are not required to contribute.

The employer contributes such additional amounts, as necessary based on an actuarial determination, to provide assets sufficient to pay for member benefits. Employer contributions for the year ended December 31, 2006 totaled \$3,170,195 (including \$162,232 from the County for Central Dispatch employees, \$725,375 from the Road Commission, \$3,032 from the Community Mental Health Authority and \$54,339 from the County Agency).

Employer contributions for the year ended December 31, 2005 totaled \$2,034,222 (including \$150,935 from the County for Central Dispatch employees and \$537,855 from the Road Commission).

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer 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 and Income Recognition** - 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 paid through the System's investment earnings.

**Reclassifications** - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### 3. INVESTMENTS AND SECURITY LENDING

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:

	<u>2006</u>	<u>2005</u>
Investments at fair value, as determined by quoted market price:		
U.S. treasuries	\$ 15,358,063	\$ 13,492,879
U.S. agencies:		
Not on securities loan	4,671,577	7,585,486
On securities loan	14,082,364	12,230,607
Foreign government bonds	12,184,739	5,425,814
Corporate bonds:		
Not on securities loan	22,138,768	24,183,150
On securities loan	588,143	88,571
Bond mutual fund	1,450,896	1,008,562
Domestic equities:		
Not on securities loan	29,142,429	37,126,569
On securities loan	21,824,290	20,110,001
International equities	9,833,815	9,337,421
American depository receipts	33,205,965	25,817,420
Real estate investment trusts	1,091,555	-
Collateralized mortgage obligations	2,039,359	-
Money market	9,335,498	6,251,335
<b>Total investments</b>	<b><u>\$ 176,947,461</u></b>	<b><u>\$ 162,657,815</u></b>

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in domestic and foreign stocks, government securities, corporate securities, mortgages, real estate and various other investment instruments, subject to certain limitations.

*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 emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

As of December 31, 2006, the System's investments in debt securities were rated by Standard & Poor's as follows:

<u>Rating</u>	<u>U.S. agencies</u>	<u>Foreign government bonds</u>	<u>Corporate bonds</u>	<u>Collateralized mortgage obligations</u>
AAA	\$ 17,333,134	\$ 9,625,160	\$ 1,881,479	\$ 2,039,359
AA	-	209,579	2,762,766	-
AA-	1,420,807	-	3,860,186	-
A+	-	1,132,224	6,607,829	-
A	-	-	4,270,348	-
A-	-	1,217,776	2,075,326	-
BBB+	-	-	768,837	-
BBB	-	-	500,140	-
	<u><u>\$ 18,753,941</u></u>	<u><u>\$ 12,184,739</u></u>	<u><u>\$ 22,726,911</u></u>	<u><u>\$ 2,039,359</u></u>

United States treasury securities are explicitly guaranteed by the U.S. government and not considered to have credit risk. The System's investments in bond mutual and money market funds are 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 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.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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 manager will hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. At December 31, 2006 the System's investment portfolio was not concentrated.

*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 does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

Maturities of the System's debt securities were as follows as of December 31:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			<u>More Than 10</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	
<b>2006</b>					
U.S. treasuries	\$ 15,358,063	\$ 197,836	\$ 7,658,394	\$ 3,695,210	\$ 3,806,623
U.S. agencies	18,753,941	1,779,845	7,842,200	4,664,135	4,467,761
Foreign governments	12,184,739	2,296,971	4,768,338	4,504,076	615,354
Corporate bonds	22,726,911	2,820,904	13,171,046	6,734,961	-
CMO	2,039,359	-	-	-	2,039,359
	<u><b>\$ 71,063,013</b></u>	<u><b>\$ 7,095,556</b></u>	<u><b>\$ 33,439,978</b></u>	<u><b>\$ 19,598,382</b></u>	<u><b>\$ 10,929,097</b></u>
<b>2005</b>					
U.S. treasuries	\$ 13,492,879	\$ 2,821,286	\$ 4,671,005	\$ 6,000,588	\$ -
U.S. agencies	19,816,093	3,709,400	7,515,699	6,102,269	2,488,725
Foreign governments	5,425,814	1,035,065	2,614,362	1,776,387	-
Corporate bonds	24,271,721	3,353,854	12,527,915	7,948,637	441,315
	<u><b>\$ 63,006,507</b></u>	<u><b>\$ 10,919,605</b></u>	<u><b>\$ 27,328,981</b></u>	<u><b>\$ 21,827,881</b></u>	<u><b>\$ 2,930,040</b></u>

Of the above balances as of December 31, 2006, \$2,375,139 of corporate securities were callable.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

*Foreign Currency Risk.* Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The System's exposure to foreign currency risk is summarized as follows:

<u>Investment / Country</u>	<u>Currency</u>	<u>Fair Value (in U.S. dollars)</u>	
		<u>2006</u>	<u>2005</u>
<b>Foreign government bonds</b>			
Australia	Australian dollar	\$ 1,807,485	\$ 1,171,457
Canada	Canadian dollar	2,506,068	1,761,939
Germany	European euro	2,088,700	1,233,137
Malaysia	Malaysian ringgit	341,531	-
New Zealand	New Zealand dollar	424,274	212,817
Poland	Polish zloty	1,217,776	-
Singapore	Singapore dollar	1,153,475	613,144
South Africa	South African rand	790,693	-
Sweden	Swedish krona	1,142,242	-
United Kingdom	British pound	712,495	433,320
		<u>12,184,739</u>	<u>5,425,814</u>
<b>International equities</b>			
Australia	Australian dollar	173,228	-
Bermuda	Bermudian dollar	703,340	1,308,684
Brazil	Brazilian real	-	121,111
Canada	Canadian dollar	3,061,663	2,856,126
Cayman Islands	Cayman Islands dollar	775,690	1,333,100
France	European euro	499,758	234,274
Germany	European euro	780,444	481,003
Israel	Israeli new shekel	169,814	155,405
Italy	European euro	157,247	-
Japan	Japanese yen	218,687	266,143
Luxembourg	European euro	415,084	283,001
Netherlands	European euro	841,577	589,205
Panama	Panamanian balboa	171,653	-
Portugal	European euro	256,846	506,268
Singapore	Singapore dollar	299,513	-
Spain	European euro	342,176	424,042
Sweden	Swedish krona	223,974	239,239
Switzerland	Swiss franc	333,022	262,614
United Kingdom	British pound	410,100	277,206
		<u>9,833,816</u>	<u>9,337,421</u>
<b>Total</b>		<u>\$ 22,018,555</u>	<u>\$ 14,763,235</u>

In addition, as part of a foreign currency overlay plan in conjunction with the foreign government bonds, the System has entered into certain forward contracts (derivatives) to reduce overall portfolio volatility caused by foreign currency risk.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

Following is a summary of these forward contracts, for which a liability in the amount of \$154,112 and \$142,994 as of December 31, 2006 and 2005, respectively, representing the fair value of those contracts, has been reported in the accompanying statements of plan net assets:

<u>Investment / Currency</u>	<u>Current Maturity Date</u>	<u>Receivable (Payable)</u> <i>[in U.S. dollars]</i>	
		<u>2006</u>	<u>2005</u>
Australian dollars payable	05/18/07	\$ (1,805,804)	\$ (1,160,903)
European euros payable	03/23/07	(1,209,635)	(724,111)
European euros payable	05/25/07	(822,454)	(489,642)
Japanese yen receivable	05/24/07	3,606,742	2,780,057
Japanese yen receivable	05/25/07	810,192	479,369
New Zealand dollars payable	05/18/07	(621,372)	(376,393)
United Kingdom pounds payable	03/19/07	(704,773)	-
United States dollars payable	05/24/07	(3,678,000)	(2,970,000)
United States dollars receivable	03/19/07	701,630	2,318,679
United States dollars receivable	03/23/07	1,154,327	-
United States dollars receivable	05/18/07	2,415,035	-
<b>Net contracts payable</b>		<b><u><u>\$ (154,112)</u></u></b>	<b><u><u>\$ (142,944)</u></u></b>

*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 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 exceed 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.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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### 4. ANNUAL REQUIRED CONTRIBUTION

The annual pension cost and net pension obligation for the year ended December 31 were as follows:

	<u>2006</u>	<u>2005</u>
Annual required contribution/ pension cost	\$ 3,170,195	\$ 2,034,222
Contribution made	<u>3,170,195</u>	<u>2,034,222</u>
Increase (decrease) in net pension obligation	-	-
Net pension asset, beginning of year	<u>-</u>	<u>-</u>
<b>Net pension asset, end of year</b>	<b><u><u>\$ -</u></u></b>	<b><u><u>\$ -</u></u></b>

The annual required contribution for 2006 was determined as part of an actuarial valuation of the System as of December 31, 2004 using the entry age normal cost method and is designed to accumulate sufficient assets to pay benefits when due. Normal cost is funded on a current basis. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 20 years. Significant actuarial assumptions used include: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 1.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. Liabilities created by plan, assumption or method changes are amortized as a level percentage of payroll over a 12-year closed period. Liabilities created by plan experience and all other liabilities or over-funding are amortized as a level percentage of payroll over a 9-year open period.

# MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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### Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 1,411,037	100%	\$ -
12/31/05	2,034,222	100%	-
12/31/06	3,170,195	100%	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

**MONROE COUNTY EMPLOYEES' RETIREMENT SYSTEM**

**Required Supplementary Information**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date December 31,</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(3) Unfunded AAL (Overfunded) (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>
1996	\$ 93,061,504	\$ 78,450,435	\$ (14,611,069)	118.6%	\$ 26,643,235	-54.8%
1997	105,788,939	87,098,801	(18,690,138)	121.5%	28,814,126	-64.9%
1998	117,699,465	91,136,434	(26,563,031)	129.1%	29,309,641	-90.6%
1999	132,836,927	97,650,685	(35,186,242)	136.0%	31,064,894	-113.3%
2000	143,765,352	105,824,598	(37,940,754)	135.9%	32,749,688	-115.9%
2001	150,304,504	116,359,159	(33,945,345)	129.2%	35,250,392	-96.3%
2002	148,404,995	125,652,447	(22,752,548)	118.1%	35,895,185	-63.4%
2003	162,683,115	139,141,015	(23,542,100)	116.9%	37,862,618	-62.2%
2004	162,725,639	150,510,011	(12,215,628)	108.1%	38,712,508	-31.6%
2005	163,151,579	163,641,875	490,296	99.7%	41,047,874	1.2%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended December 31,</b>	<b>Annual Required Contribution</b>	<b>Annual Actual Contribution</b>	<b>Percentage Contributed</b>
1997	\$ 1,619,271	\$ 1,619,271	100.00%
1998	1,110,338	1,110,338	100.00%
1999	579,687	579,687	100.00%
2000	197,395	197,395	100.00%
2001	133,907	133,907	100.00%
2002	155,524	155,524	100.00%
2003	191,979	191,979	100.00%
2004	1,411,037	1,411,037	100.00%
2005	2,034,222	2,034,222	100.00%
2006	3,170,195	3,170,195	100.00%