



Kalamazoo County Employees' Retirement System

Financial Statements and Required Supplementary Information

Years Ended December 31, 2011 and 2010

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Kalamazoo County Employees' Retirement System

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Years Ended December 31, 2011 and 2010

Kalamazoo County Employees' Retirement System

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Independent Auditors' Report

Board of Commissioners
Kalamazoo County Employees' Retirement System
Kalamazoo, Michigan

We have audited the accompanying statements of plan net assets of Kalamazoo County Employees' Retirement System (the System), a pension trust fund of the County of Kalamazoo, as of December 31, 2011 and 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalamazoo County Employees' Retirement System as of December 31, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America requires that the Management's Discussion and Analysis and Required Supplementary Information on Pages 5 through 8 and 21 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying supplementary information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO USA, LLP

Certified Public Accountants

May 22, 2012

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis

This section of the Kalamazoo County Employees' Retirement System's (the System's) annual financial statements presents a discussion and analysis of the financial performance of the System for the year ended December 31, 2011, with selected comparative information for the year ended December 31, 2010. This discussion, prepared by management along with the financial statements, should be read in conjunction with, and is qualified in its entirety by, the financial statements. This discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. The financial statements and this discussion are the responsibility of management.

Financial Highlights

- The System's assets exceeded liabilities at the close of fiscal year 2011 by approximately \$155,915,000 (reported as *net assets*).
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2010, the date of the most recent actuarial valuation, the present value of the actuarial accrued liability was \$143,250,000 and the actuarial value of the System's assets was \$165,881,000. As a result, the System's liability is overfunded by \$22,631,000. The actuarial assumptions used in calculating the liability have not changed significantly from prior years.
- Additions (deductions) for the year were \$(1,196,799), which is comprised of contributions of \$2,426,389 and net investment loss of \$(3,623,188). Additions for the year are negative as net investment loss exceeded contributions.
- Deductions decreased 19% from the prior year from \$7,113,025 to \$5,777,443. Most of this decrease represented a decrease of retirement benefits paid.

Using the Financial Statements

The System's financial report includes two financial statements: the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statements of Plan Net Assets* presents all of the System's assets and liabilities, with the differences between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. The *Statements of Changes in Plan Net Assets* presents how the System's net assets changed during the most recent year. These two financial statements should be reviewed along with the Schedule of Funding Progress and the Schedule of Employer Contributions (see Note 7) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis (Continued)

Statements of Plan Net Assets

A summarized comparison of the System's assets, liabilities and net assets is as follows:

<i>December 31,</i>	<i>2011</i>	<i>2010</i>	<i>Total Percent Change</i>
Assets:			
Cash and money market funds	\$ 998,269	\$ 5,748,205	-83%
Investments	155,361,304	160,231,304	-3%
Receivables	1,340,561	1,741,852	-23%
Prepaid expenses	-	15,000	-100%
Total Assets	157,700,134	167,736,361	-6%
Liabilities:			
Benefits payable	797,702	522,235	53%
Accounts payable	987,791	4,325,243	-77%
Total Liabilities	1,785,493	4,847,478	-63%
Net Assets Held in Trust for Pension Benefits	\$ 155,914,641	\$ 162,888,883	-4%

<i>December 31,</i>	<i>2010</i>	<i>2009</i>	<i>Total Percent Change</i>
Assets:			
Cash and money market funds	\$ 5,748,205	\$ 1,056,707	444%
Investments	160,231,304	142,858,665	12%
Receivables	1,741,852	1,132,904	54%
Prepaid expenses	15,000	15,000	0%
Total Assets	167,736,361	145,063,276	16%
Liabilities:			
Benefits payable	522,235	637,080	-18%
Accounts payable	4,325,243	676,000	540%
Total Liabilities	4,847,478	1,313,080	269%
Net Assets Held in Trust for Pension Benefits	\$ 162,888,883	\$ 143,750,196	13%

The System's total assets as of December 31, 2011, were approximately \$157,700,000 and were mostly comprised of investments. Total assets decreased approximately \$10,000,000 or 6% from the prior year primarily due to a decrease in investment returns.

Total liabilities as of December 31, 2011, were approximately \$1,790,000 and were comprised of benefits payable and accounts payable. Total liabilities decreased approximately \$3,000,000 or 63% from the prior year primarily due to changes in the liability for pending purchases of investments.

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis (Continued)

The System's assets exceeded its liabilities at the close of fiscal year 2011 by approximately \$155,915,000. Total net assets held in trust for pension benefits decreased from the prior year primarily due to a net investment loss.

Statements of Changes in Plan Net Assets

A summarized comparison of the System's additions, deductions, and changes in net assets is as follows:

<i>Year ended December 31,</i>	<i>2011</i>	<i>2010</i>	<i>Total Percent Change</i>
Additions (Deductions):			
Contributions	\$ 2,426,389	\$ 1,955,575	24%
Net investment income (loss)	(3,623,188)	24,296,137	-115%
Total Additions (Deductions)	(1,196,799)	26,251,712	-105%
Deductions:			
Benefits	5,428,861	6,693,451	-19%
Administrative expense	348,582	419,574	-17%
Total Deductions	5,777,443	7,113,025	-19%
Net Increase (Decrease)	(6,974,242)	19,138,687	-136%
Net Assets Held in Trust for Pension Benefits, beginning of year	162,888,883	143,750,196	13%
Net Assets Held in Trust for Pension Benefits, end of year	\$ 155,914,641	\$ 162,888,883	-4%

<i>Year ended December 31,</i>	<i>2010</i>	<i>2009</i>	<i>Total Percent Change</i>
Additions:			
Contributions	\$ 1,955,575	\$ 1,344,876	45%
Net investment income	24,296,137	30,802,977	-21%
Total Additions	26,251,712	32,147,853	-18%
Deductions:			
Benefits	6,693,451	4,663,041	44%
Administrative expense	419,574	401,326	5%
Total Deductions	7,113,025	5,064,367	40%
Net Increase	19,138,687	27,083,486	-29%
Net Assets Held in Trust for Pension Benefits, beginning of year	143,750,196	116,666,710	23%
Net Assets Held in Trust for Pension Benefits, end of year	\$ 162,888,883	\$ 143,750,196	13%

Kalamazoo County Employees' Retirement System

Management's Discussion and Analysis (Concluded)

Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Revenue sources include employer contributions, member contributions, and earnings on investments. Contributions and net investment loss for fiscal year 2011 totaled approximately \$(1,197,000). This represents a decrease of approximately \$27,449,000 from the prior year.

Contributions increased from the previous year by approximately \$500,000, due to an increase in required contribution rates as a result of changes in actuarial assumptions. Net investment income decreased approximately \$27,919,000 or 115%, from the prior year due to an investment loss from the change in market conditions.

Deductions from Net Assets

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, refunds of contributions and interest to former members, and the cost of administering the System. Total deductions for the fiscal year ended December 31, 2011, were approximately \$5,777,000, a decrease of \$1,336,000 from the previous year.

Differences in benefit payments may occur for various reasons, but are primarily related to the number of new retirees receiving benefits and whether new retirees receive monthly payments or lump sum distributions. Pension benefits decreased by \$1,264,000 or 19% in 2011 as compared to 2010.

The System as a Whole

Management believes, and actuarial studies concur, that the System is in a solid financial position to meet its current obligations. We believe that the current financial position will continue to improve due to a prudent investment program, cost controls, and strategic planning.

Requests for Financial Information

This financial report is designed to provide the Retirement Investment Committee, our membership, citizens, taxpayers, investment managers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the funds under its stewardship. If you have questions about this report or need additional information, contact:

Office of Finance
Kalamazoo County Employees' Retirement System
201 West Kalamazoo Avenue
Kalamazoo, Michigan 49007

Kalamazoo County Employees' Retirement System

Statements of Plan Net Assets

<i>December 31,</i>	<i>2011</i>	<i>2010</i>
Assets:		
Cash (Note 3)	\$ 998,269	\$ 5,748,205
Investments, at fair value (Note 3):		
Collective trust funds	46,921,245	48,834,091
Mutual funds	65,141,122	67,524,007
Corporate bonds	16,363,750	15,046,591
U.S. government securities	11,332,789	21,106,858
Real estate pooled separate account	4,269,239	2,087,239
Pooled mortgages	11,333,159	5,632,518
Total cash and investments	156,359,573	165,979,509
Receivables:		
Interest and dividends	1,237,453	1,655,169
Accounts	13,721	15,466
Employer contributions	89,387	71,217
Total receivables	1,340,561	1,741,852
Prepaid expenses	-	15,000
Total Assets	157,700,134	167,736,361
Liabilities:		
Benefits payable	797,702	522,235
Accounts payable	987,791	4,325,243
Total Liabilities	1,785,493	4,847,478
Net Assets Held in Trust for Pension Benefits	\$ 155,914,641	\$ 162,888,883

See accompanying notes to financial statements.

Kalamazoo County Employees' Retirement System

Statements of Changes in Plan Net Assets

<i>Year ended December 31,</i>	<i>2011</i>	<i>2010</i>
Additions:		
Contributions (Note 4):		
Employer	\$ 2,425,242	\$ 1,954,335
Plan members	1,147	1,240
Total contributions	2,426,389	1,955,575
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(6,760,225)	21,206,703
Interest and dividends	1,443,134	1,323,810
Income on mutual funds	1,967,367	2,130,369
Income on pooled separate account	249,596	152,896
Total investment income (loss)	(3,100,128)	24,813,778
Less investment expense	523,060	517,641
Net investment income (loss)	(3,623,188)	24,296,137
Total Additions (Deductions)	(1,196,799)	26,251,712
Deductions:		
Benefits	5,428,861	6,693,451
Administrative expenses	348,582	419,574
Total Deductions	5,777,443	7,113,025
Net Increase (Decrease)	(6,974,242)	19,138,687
Net Assets Held in Trust for Pension Benefits, beginning of year	162,888,883	143,750,196
Net Assets Held in Trust for Pension Benefits, end of year	\$ 155,914,641	\$ 162,888,883

See accompanying notes to financial statements.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements

1. Description of the System

The following brief description of the Kalamazoo County Employees' Retirement System (the System) is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

The System is a multiple-employer, defined benefit pension plan, which provides retirement and disability benefits to eligible plan members and beneficiaries. The System was established by the Kalamazoo County Board of Commissioners and is administered by the Kalamazoo County Retirement Investment Committee. The Kalamazoo County (the County), Kalamazoo Road Commission (the Road Commission), and Kalamazoo Community Mental Health and Substance Abuse Services (the Authority) are participating employers of the System and are required to contribute to the System under state of Michigan statutes. Employees of participating employers holding regular positions, either full time or part time of twenty hours or more per week, are included by law in the System. Employees of the Sheriff's Deputy Association, Sheriff's Supervisory Association, certain District Court employees, and Judges elected or appointed after March 31, 1997, are excluded from the plan pursuant to past negotiations.

The System is controlled by laws established by the state of Michigan. Any changes to the plan document must be approved by the Kalamazoo County Board of Commissioners and subsequently implemented by the Retirement Investment Committee and the County Administrator/Controller.

Eligibility

An eligible employee becomes a member in the System as of his or her date of permanent employment. Participants become 100% vested for benefits after eight years of service. Terminated members vested in the System are eligible for deferred retirement benefits.

As of December 31, 2010, the date of the latest actuarial valuation, the System's membership consisted of the following:

	<i>County</i>	<i>Road Commission</i>	<i>Authority</i>	<i>Total</i>
Retirees and beneficiaries				
currently receiving benefits	241	41	18	300
Terminated members not yet receiving benefits	120	6	37	163
Current active members:				
Vested	380	38	70	488
Nonvested	365	14	133	512
Total Plan Membership	1,106	99	258	1,463

Benefits

Regular retirement benefits begin at age 60 with eight years or more of service for the Authority and the Road Commission employees, as well as the County employees hired before July 1, 2009. Regular retirement benefits begin at age 65 with eight years or more of service for the County employees hired on or after July 1, 2009. Certain employees are eligible for normal retirement at age 55 with 25 years of service. Members may retire at age 55 with eight years of service for a reduced benefit.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

Deferred members, hired before October 1, 2009, may elect to receive a lump sum benefit at any time before or after reaching the retirement age. All deferred members may receive annuity benefits at the normal or early retirement age.

Benefits are determined at the member's retirement date based on a formula of the member's service credit, final average compensation, and a percentage factor. Service credit is determined by the total number of full time (at least 20 hours per week) years and months of employment. Additional service may be credited for employees with military or disability leave. The final average compensation is the average compensation received during the highest five consecutive years of the last 10 years of service or all years of service if the employee has less than 10 years of service. The percentage is determined by the participating employers of the System and ranged from 2.0% to 2.5% in 2011 and 2010. Annual benefits are reduced for early retirement or beneficiary benefits. Employees may choose to receive benefits in monthly payments or as lump sum payments. Lump sum payments for employees hired before October 1, 2009, are calculated using the annual benefit, expected future lifetime, and a discount rate. Lump sum payments are no longer an option available for employees hired after October 1, 2009. The discount rate shall be the investment return assumption as adopted by the Retirement Investment Committee to be used in the annual actuarial valuation of the System.

2. *Summary of Significant Accounting Policies*

The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Plan member contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investments are reported 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. Pooled separate accounts are stated primarily at current appraised value, which approximates market. Investments that do not have an established market are reported at estimated fair value.

Use of Estimates

The preparation of the System's financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of net assets at the date of the financial statements and the actuarial present value of accumulated benefits as of the benefit information date, the changes in net assets during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

Risks and Uncertainties

The System's contributions and the actuarial present value of accumulated benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as interest rate, market, and credit. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in the value of investments, it is possible that changes in these estimates, assumptions and risks in near term would be material to the financial statements.

3. *Deposits and Investments*

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The System's investment policy complies with the state statutes and has no additional limitations on deposits.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits might not be recovered. The System does not have a policy for mitigating custodial credit risk over deposits. At December 31, 2011, the System had a deposit balance of \$998,269 that was uninsured.

Investments

The investments of the System are designed to comply with requirements of the state of Michigan, which has numerous investment limitations depending on the type of investment.

The most significant state limitations as they impact the System are as follows:

1. Investments in stock are limited to 70% of the System's assets and investments in the stock of any one corporation are limited to 5% of the System's assets;
2. Equity investments in real estate are limited to 5% of the System's assets;
3. Investment in state and local government obligations are limited to 5% of the System's assets;
4. Investments in foreign securities are limited to 20% of the System's assets.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The fixed income portfolio is structured to provide stability and cash flow to the System. To minimize interest rate risk, the weighted average duration of fixed income investments are to be within .05 years of the respective Barclays Capital US Aggregate Bond Index benchmark. In addition, the System limits maturity in commercial paper to no more than 270 days after issue.

As of December 31, 2011, the System had the following investments and maturities exposed to interest rate risk:

<i>Investment Type</i>	<i>Investment Maturities - in Years</i>				
	<i>Fair Value</i>	<i>Less Than 1</i>	<i>1-5</i>	<i>6-10</i>	<i>More Than 10</i>
Debt Securities:					
Asset Backed Corporate Bonds	\$ 1,049,405	\$ 100,473	\$ 45,764	\$ 903,168	\$ -
Corporate Bonds	15,314,345	-	3,931,961	4,217,465	7,164,919
Federal Home Loan Mortgage Corporation (FHLMC)	984,457	-	-	215,504	768,953
Federal National Mortgage Association (FNMA)	10,348,701	652,519	-	65,289	9,630,893
Government Issue FICO Strip Securities	2,836,407	-	612,607	1,388,980	834,820
U.S. Treasury Bonds	8,496,383	-	3,249	2,695,811	5,797,323
Total	39,029,698	\$ 752,992	\$ 4,593,581	\$ 9,486,217	\$ 24,196,908
Other Investments:					
U.S. Micro Cap Equity Mutual Fund	7,853,750				
Equity Index Collective Trust Fund	46,921,245				
Mutual International Small Cap Fund	15,271,232				
Mutual Emerging Markets Fund	14,908,334				
U.S. Large Cap Equity Mutual Fund	7,836,293				
U.S. Small Cap Equity Mutual Fund	15,688,428				
Real Estate Pooled Separate Account	4,269,239				
REIT Index Inst	3,583,085				
Total Investments	\$ 155,361,304				

Credit Risk

Credit Risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The System limits investments in commercial paper rated at the time of purchase within the two highest ratings issued by nationally recognized statistical rating organizations. In addition, investments in investment companies are limited to those that have been in operation for at least five years and have assets under management of more than \$500,000,000. The System also requires the average fixed income portfolio quality rating to be an "A" or better. Bonds owned by the System are limited to those with a "BBB" or better rating by Standard & Poor's or an equivalent rating agency at the time of purchase.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

As of December 31, 2011, the System's investments had the following credit ratings:

<i>Debt Investment Rating</i>	<i>Fair Value</i>	<i>S&P Rating</i>					<i>Unrated</i>
		<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>		
Asset Backed							
Corporate Bonds	\$ 1,049,405	\$ 1,049,405	\$ -	\$ -	\$ -	\$ -	
Corporate Bonds	15,314,345	1,086,238	2,012,916	5,962,555	3,755,474	2,497,162	
Federal Home Loan Mortgage Corporation (FHLMC)	984,457	984,457	-	-	-	-	
Federal National Mortgage Association (FNMA)	10,348,701	69,117	9,938,482	-	-	341,102	
Government Issue FICO							
Strip Securities	2,836,407	51,021	-	-	-	2,785,386	
U.S. Treasury Bonds	8,495,383	3,249	-	-	-	8,493,134	
Totals by Rating	\$39,028,698	\$ 3,243,487	\$ 11,951,398	\$ 5,962,555	\$ 3,755,474	\$ 14,116,784	

<i>Fund Ratings</i>	<i>Morningstar Rating</i>		
	<i>★★</i>	<i>★★★</i>	<i>★★★★</i>
U.S. Micro Cap Equity Mutual Fund	\$ 7,853,750	\$ -	\$ 7,853,750
Equity Index Collective Trust Fund	46,921,245	-	46,921,245
International Small Cap Mutual Fund	15,271,232	-	15,271,232
Emerging Markets Mutual Fund	14,908,334	-	14,908,334
U.S. Large Cap Equity Mutual Fund	7,836,293	-	7,836,293
U.S. Small Cap Equity Mutual Fund	15,688,428	-	15,688,428
REIT Index Inst	3,583,085	-	3,583,085
Totals by Rating	\$ 112,062,367	\$ -	\$ 97,154,033

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 state generally limits investments in a single issuer to no more than 5% of the total portfolio assets, with the exception of obligations issued, assumed, or guaranteed by the United States. To minimize concentration of credit risk and increase portfolio diversification, the System places the following additional limits to investments:

- Investments in common stock are limited to 65% of the total portfolio.
- Investments in equity real estate are limited to 5% of the total portfolio.
- 100% of investments may be comprised of U.S. Government and Agency issues, but only up to 50% may be invested in Government Agencies.
- Investments in issues in utilities, oils, industrials, and direct placements are limited to 30% of the portfolio.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

As of December 31, 2011, no single holding within this portfolio represented more than 5% of the total portfolio.

Custodial Credit Risk

This portfolio will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to those permitted by Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq) and the following: a) Common Stock; b) real estate investments in equity positions or convertible to equity positions; c) issues by the United States Treasury and Agencies; d) corporate bonds; e) commercial paper; f) derivatives that derive values from external source (interest rate benchmark, commodity benchmark, underlying mortgage pools, etc.); and g) mutual funds consisting of the allowable investments.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq); support the overall investment policies of the System; understand and accept their designated "role" within the System's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines of this document and/or any additional written instructions that amend this Investment Policy Statement. The following criteria are used to evaluate each investment manager's performance: a) achievement of fund objectives as outlined in the investment policy; b) comparisons with other managers, indexes, etc.; c) subjective observations regarding the manager's organization, professionalism, administrative skills, etc.; and d) biannual due diligence meetings.

As of December 31, 2011, the System had no investments exposed to custodial credit risk.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The state permits investments in investment grade, dollar denominated obligations issued in the United States by foreign governments, banks, or corporations. Investments in foreign securities are limited to not exceed more than 20% of the System's assets. It is the System's policy to not purchase foreign investments except those listed in the United States.

As of December 31, 2011, the System invested approximately \$15,271,000 in an international small cap value mutual fund that exposes the portfolio to foreign currency risk. The fund invests in equity securities of small, non-U.S. companies that the Advisor determines to be value stocks at the time of purchase. The portfolio intends to purchase the stocks of small companies within developed markets. Under normal market conditions, the portfolio intends to invest its assets in value stocks of small companies, organized or having a majority of their assets in or deriving a majority of their operating income in non-U.S. countries. Currently, no more than 22% of the portfolio's assets is invested in such companies in any one country.

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

The System also has invested approximately \$14,908,000 in an emerging markets mutual fund that is also exposed to foreign currency risk. The fund invests in emerging market equity securities that are deemed to be large cap stocks at the time of purchase, and have characteristics of emerging markets as determined by the fund. Currently, no more than 15% of the portfolio's assets is invested in such companies in any one country.

4. Contributions

It is the System's policy to fund the actuarial determined pension liability in order for funds to be available when a member retires. The employers are required to contribute a percentage of payroll at an actuarially determined rate. The employers were required to contribute the following percentages of payroll:

<i>Year ended December 31,</i>	<i>2011</i>	<i>2010</i>
Kalamazoo County:		
Airport	0.00%	0.00%
Head Start I	0.00%	0.00%
Head Start II	0.00%	0.00%
Juvenile Court	9.15%	7.33%
Juvenile Home	0.00%	0.00%
Maintenance	11.91%	10.83%
Managerial	6.58%	2.84%
Professional	7.92%	7.99%
Sheriff Command	0.00%	0.00%
TOPS	0.00%	0.00%
Kalamazoo Community Mental Health and Substance Abuse Services:		
TOPS	7.14%	5.42%
Professional	4.15%	1.55%
Managerial	8.94%	7.40%
Road Commission - All eligible employees	0.00%	0.00%

The employers' actual contributions were as follows:

<i>Year ended December 31, 2011</i>	<i>Annual Required Contributions</i>	<i>Actual</i>	<i>Percent Contributed</i>
Kalamazoo County	\$ 1,784,970	\$ 1,784,970	100.0%
Kalamazoo County Road Commission	-	-	100.0%
Kalamazoo Community Mental Health and Substance Abuse Services	640,272	640,272	100.0%
Total Contributions	\$ 2,425,242	\$ 2,425,242	100.0%

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

Plan members may purchase credited service for time served in the military. To purchase credited service for military leave, members pay an amount equal to 5% of the member's annual compensation for each year purchased. Members of the County Board of Commissioners electing to participate in the plan must contribute 100% of the actuarial cost annually. Plan members retain the right upon termination to withdraw their contributions plus regular interest, as defined by the System, in lieu of any pension rights they may have. Members may repurchase past service credit for an amount equal to the aggregate amount of contributions the County made at the time of the previous service plus accrued interest from the date of separation to the date of the deposit.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest, upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2011, is \$1,127,300.

5. Compliance with State Statutes

Effective October 16, 2000, a state of Michigan law was enacted limiting a retirement plan's investment in common stocks to 70% of a plan's assets at market value.

At December 31, 2011, the System's investment in common stocks was 69.3% of plan assets at market value, thereby not exceeding the limit allowed by law.

At December 31, 2010, the System's investment in common stocks was 70.5% of plan assets at market value, thereby exceeding the limit allowed by law. On November 17, 2010, the Retirement Investment Committee met and directed staff to review the asset holdings as of November 30, 2010. The System was brought into compliance in December, 2010. However, the market appreciation during December, 2010, caused the System to exceed the 70% limit at December 31, 2010. The System was brought into compliance during 2011.

6. System Reserves

Retiree reserves are based on the corresponding actuarial valuation as follows:

	<i>December 31, 2010</i>		<i>December 31, 2009</i>	
	<i>Reserve</i>	<i>Over (Under) Funded</i>	<i>Reserve</i>	<i>Over (Under) Funded</i>
Kalamazoo County	\$ 24,937,854	\$ (6,084,024)	\$ 25,401,639	\$ (2,895,529)
Kalamazoo County Road Commission	5,961,087	(36,667)	5,936,720	(417,766)
Kalamazoo Community Mental Health and Substance Abuse Services	2,829,985	(413,129)	2,244,636	(1,051,843)
Total Contributions	\$ 33,728,926	\$ (6,533,820)	\$ 33,582,995	\$ (4,365,138)

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Continued)

7. Contributions and Funded Status

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI), immediately following these notes present multi-year trend information pertaining to whether the actuarial valuation of the plan's assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
12/31/2010	¹ \$ 165,881,227	\$ 143,249,838	\$ (22,631,389)	115.8%	\$ 43,864,919	-51.6%

¹ Assumptions and/or methods revised.

The information presented in the required supplementary schedules was determined as a part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	December 31, 2010
Actuarial cost method:	Individual entry age normal cost
Amortization method:	Level percent of payroll, open period (closed period for the Road Commission)
Remaining amortization period:	All liabilities - 10 years
Asset valuation method:	Market value with five-year smoothing of appreciation (and depreciation for the Road Commission and Community Mental Health Services)
Actuarial assumptions:	
Investment rate of return:*	7.75%
Projected salary increases:*	4.5% to 10.5% (General County) 4.5% to 6.5% (Community Mental Health Services) 4.5% to 9.2% (Road Commission)
Cost-of-living adjustments:	None

*Includes inflation at 4.5%

Kalamazoo County Employees' Retirement System

Notes to the Basic Financial Statements (Concluded)

8. *Reclassification*

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

9. *Subsequent Events*

The System's management has evaluated the period from January 1, 2012, through May 22, 2012, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements. During the period, no material recognizable subsequent events were identified.

Required Supplementary Information

Kalamazoo County Employees' Retirement System

Schedule of Funding Progress by Participating Employers

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
Kalamazoo County Employees' Retirement System						
12/31/2001	\$ 146,167,171	\$ 108,473,857	\$ (37,693,314)	134.7%	\$ 39,894,879	-94.5%
12/31/2002	³ \$ 140,226,303	\$ 130,326,405	\$ (9,899,898)	107.6%	\$ 41,876,488	-23.6%
12/31/2003	^{1,2,4} \$ 131,974,673	\$ 115,888,097	\$ (16,086,576)	113.9%	\$ 38,550,262	-41.7%
12/31/2004	^{2,4} \$ 141,301,975	\$ 120,989,478	\$ (20,312,497)	116.8%	\$ 39,502,958	-51.4%
12/31/2005	\$ 147,297,289	\$ 119,481,751	\$ (27,815,538)	123.3%	\$ 38,347,962	-72.5%
12/31/2006	^{1,2} \$ 160,357,123	\$ 124,338,265	\$ (36,018,858)	129.0%	\$ 39,487,222	-91.2%
12/31/2007	\$ 157,216,140	\$ 114,641,285	\$ (42,574,855)	137.1%	\$ 39,319,527	-108.3%
12/31/2008	\$ 160,225,830	\$ 124,785,459	\$ (35,440,371)	128.4%	\$ 41,295,573	-85.8%
12/31/2009	^{1,2} \$ 162,506,375	\$ 135,708,332	\$ (26,798,043)	119.7%	\$ 43,217,605	-62.0%
12/31/2010	² \$ 165,881,227	\$ 143,249,838	\$ (22,631,389)	115.8%	\$ 43,864,919	-51.6%
Kalamazoo County						
12/31/2001	\$ 111,610,618	\$ 83,335,554	\$ (28,275,064)	133.9%	\$ 29,725,676	-95.1%
12/31/2002	³ \$ 106,383,340	\$ 99,312,998	\$ (7,070,342)	107.1%	\$ 30,376,717	-23.3%
12/31/2003	^{1,4} \$ 99,498,957	\$ 87,719,880	\$ (11,779,077)	113.4%	\$ 28,267,177	-41.7%
12/31/2004	² \$ 106,222,382	\$ 93,324,847	\$ (12,897,535)	113.8%	\$ 29,589,370	-43.6%
12/31/2005	\$ 110,000,754	\$ 91,148,307	\$ (18,852,447)	120.7%	\$ 27,857,193	-67.7%
12/31/2006	^{1,2} \$ 119,374,129	\$ 94,622,759	\$ (24,751,370)	126.2%	\$ 28,167,697	-87.9%
12/31/2007	\$ 117,536,641	\$ 87,542,664	\$ (29,993,977)	134.3%	\$ 27,705,539	-108.3%
12/31/2008	¹ \$ 120,174,139	\$ 95,531,315	\$ (24,642,824)	125.8%	\$ 29,132,398	-84.6%
12/31/2009	^{1,2} \$ 121,700,436	\$ 104,800,076	\$ (16,900,360)	116.1%	\$ 30,836,049	-54.8%
12/31/2010	² \$ 124,116,801	\$ 110,074,819	\$ (14,041,982)	112.8%	\$ 31,293,381	-44.9%

¹ Plan amended

² Assumptions and/or methods revised.

³ Anticipates continued granting of future retiree increases.

⁴ Eliminated anticipation of continued granting of future retiree increases.

Kalamazoo County Employees' Retirement System

Schedule of Funding Progress by Participating Employers (Concluded)

<i>Actuarial Valuation Date</i>		<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (UAAL) (b)-(a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b-a)/c)</i>
Kalamazoo Community Mental Health and Substance Abuse Services							
12/31/2001	¹	\$ 17,053,135	\$ 13,017,823	\$ (4,035,312)	131.0%	\$ 7,458,238	-54.1%
12/31/2002	³	\$ 17,695,566	\$ 17,223,784	\$ (471,782)	102.7%	\$ 8,686,961	-5.4%
12/31/2003	^{1,2,4}	\$ 16,153,856	\$ 13,782,313	\$ (2,371,543)	117.2%	\$ 7,395,382	-32.1%
12/31/2004	²	\$ 17,322,964	\$ 13,800,127	\$ (3,522,837)	125.5%	\$ 6,950,369	-50.7%
12/31/2005		\$ 18,590,919	\$ 14,106,806	\$ (4,484,113)	131.8%	\$ 7,407,981	-60.5%
12/31/2006	²	\$ 21,000,047	\$ 15,485,864	\$ (5,514,183)	135.6%	\$ 8,246,246	-66.9%
12/31/2007		\$ 21,371,724	\$ 14,384,271	\$ (6,987,453)	148.6%	\$ 8,551,466	-81.7%
12/31/2008		\$ 21,662,970	\$ 16,201,152	\$ (5,461,818)	133.7%	\$ 9,049,076	-60.4%
12/31/2009	^{1,2}	\$ 22,528,833	\$ 17,509,842	\$ (5,018,991)	128.7%	\$ 9,539,315	-52.6%
12/31/2010	²	\$ 23,417,047	\$ 19,921,921	\$ (3,495,126)	117.5%	\$ 9,824,208	-35.6%

Kalamazoo County Road Commission

12/31/2001		\$ 17,503,418	\$ 12,120,480	\$ (5,382,938)	144.4%	\$ 2,710,965	-198.6%
12/31/2002	³	\$ 16,147,397	\$ 13,789,623	\$ (2,357,774)	117.1%	\$ 2,812,810	-83.8%
12/31/2003	¹	\$ 16,321,860	\$ 14,385,904	\$ (1,935,956)	113.5%	\$ 2,887,703	-67.0%
12/31/2004	^{2,4}	\$ 17,756,629	\$ 13,864,504	\$ (3,892,125)	128.1%	\$ 2,963,219	-131.3%
12/31/2005		\$ 18,705,616	\$ 14,226,638	\$ (4,478,978)	131.5%	\$ 3,082,788	-145.3%
12/31/2006	²	\$ 19,982,947	\$ 14,229,642	\$ (5,753,305)	140.4%	\$ 3,073,779	-187.2%
12/31/2007		\$ 18,307,775	\$ 12,714,350	\$ (5,593,425)	144.0%	\$ 3,062,522	-182.6%
12/31/2008		\$ 18,388,721	\$ 13,052,992	\$ (5,335,729)	140.9%	\$ 3,114,099	-171.3%
12/31/2009	²	\$ 18,277,106	\$ 13,398,414	\$ (4,878,692)	136.4%	\$ 2,842,241	-171.6%
12/31/2010	²	\$ 18,347,379	\$ 13,253,098	\$ (5,094,281)	138.4%	\$ 2,747,330	-185.4%

¹ Plan amended

² Assumptions and/or methods revised.

³ Anticipates continued granting of future retiree increases.

⁴ Eliminated anticipation of continued granting of future retiree increases.

Kalamazoo County Employees' Retirement System

Schedule of Participating Employers' Contributions

<i>Year ended</i>	<i>Annual</i>	<i>Percentage</i>
<i>December 31,</i>	<i>Required</i>	<i>Contributed</i>
<hr/>		

**Kalamazoo County
Employees' Retirement System**

2001	\$ 1,155,686	101.4%
2002	\$ 1,093,922	93.3%
2003	\$ 3,952,316	100.0%
2004	\$ 2,375,325	99.8%
2005	\$ 2,713,771	99.7%
2006	\$ 1,675,122	100.2%
2007	\$ 1,120,987	100.0%
2008	\$ 921,434	100.0%
2009	\$ 1,330,215	100.5%
2010	\$ 1,935,171	101.0%

Kalamazoo County

2001	\$ 667,714	102.5%
2002	\$ 597,452	87.7%
2003	\$ 2,684,452	99.8%
2004	\$ 1,607,758	99.5%
2005	\$ 1,730,540	99.9%
2006	\$ 1,317,801	100.3%
2007	\$ 858,753	100.0%
2008	\$ 696,029	100.0%
2009	\$ 928,340	100.7%
2010	\$ 1,522,167	101.3%

Kalamazoo County Employees' Retirement System

Schedule of Participating Employers' Contributions (Concluded)

<i>Year ended December 31,</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
Kalamazoo Community Mental Health and Substance Abuse Services		
2001	\$ 487,972	100.0%
2002	\$ 496,470	100.0%
2003	\$ 1,075,219	100.0%
2004	\$ 534,336	100.0%
2005	\$ 397,661	100.0%
2006	\$ 357,321	100.0%
2007	\$ 262,234	100.0%
2008	\$ 225,405	100.0%
2009	\$ 401,875	100.0%
2010	\$ 413,004	105.3%
Kalamazoo County Road Commission		
2001	\$ -	100.0%
2002	\$ -	100.0%
2003	\$ 192,645	103.1%
2004	\$ 233,231	101.4%
2005	\$ 45,570	88.9%
2006	\$ -	100.0%
2007	\$ -	100.0%
2008	\$ -	100.0%
2009	\$ -	100.0%
2010	\$ -	100.0%

Supplementary Information

	<i>General County</i>		
	<i>Contributions</i>		
	<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>
Balance, January 1, 2010	\$ 760,746	\$ 80,949,580	\$ 25,401,638
Additions (deductions):			
Actuarial adjustment	-	(2,895,530)	2,895,530
Investment income, less investment and administrative expenses of \$937,215	55,788	15,920,370	1,793,674
Contributions	1,240	1,541,332	-
Total additions	57,028	14,566,172	4,689,204
Deductions -			
Benefits	-	-	(5,196,369)
Transfers between reserves	(42,150)	(1,231)	43,381
Net change in reserves	14,878	14,564,941	(463,784)
Balance, December 31, 2010	775,624	95,514,521	24,937,854
Additions (deductions):			
Actuarial adjustment	-	(6,084,024)	6,084,024
Investment income (loss), less investment and administrative expenses of \$871,642	54,655	(5,103,298)	2,094,022
Contributions	1,147	1,784,970	-
Total additions	55,802	(9,402,352)	8,178,046
Deductions -			
Benefits	-	-	(4,073,773)
Transfers between reserves	(71,540)	-	71,540
Net change in reserves	(15,738)	(9,402,352)	4,175,813
Balance, December 31, 2011	\$ 759,886	\$ 86,112,169	\$ 29,113,667

Kalamazoo County Employees' Retirement System

Schedule of Changes in Reserves of Net Assets Held in Trust

<i>Road Commission</i>			<i>Community Mental Health Services</i>			
<i>Contributions</i>			<i>Contributions</i>			<i>Total</i>
<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>	<i>Member</i>	<i>Employer</i>	<i>Current Retirees</i>	
\$ 289,672	\$ 12,022,329	\$ 5,936,720	\$ 36,417	\$ 16,108,458	\$ 2,244,636	\$ 143,750,196
-	(417,766)	417,766	-	(1,051,843)	1,051,843	-
22,071	2,541,497	428,756	2,822	2,908,037	203,548	23,876,563
-	-	-	-	413,003	-	1,955,575
22,071	2,123,731	846,522	2,822	2,269,197	1,255,391	25,832,138
-	-	(827,039)	-	-	(670,043)	(6,693,451)
(4,885)	-	4,885	-	-	-	-
17,186	2,123,731	24,368	2,822	2,269,197	585,348	19,138,687
306,858	14,146,060	5,961,088	39,239	18,377,655	2,829,984	162,888,883
-	(36,667)	36,667	-	(413,129)	413,129	-
23,782	(914,433)	403,273	2,656	(740,699)	208,272	(3,971,770)
-	-	-	-	640,272	-	2,426,389
23,782	(951,100)	439,940	2,656	(513,556)	621,401	(1,545,381)
-	-	(794,232)	-	-	(560,856)	(5,428,861)
-	-	-	(5,121)	-	5,121	-
23,782	(951,100)	(354,292)	(2,465)	(513,556)	65,666	(6,974,242)
\$ 330,640	\$ 13,194,960	\$ 5,606,796	\$ 36,774	\$ 17,864,099	\$ 2,895,650	\$ 155,914,641