

Winston-Salem Police Officers' Retirement System



Winston-Salem, North Carolina
Annual Financial Report
June 30, 2012

Winston-Salem Police Officers' Retirement System

Winston-Salem, North Carolina

Table of Contents

| | Page |
|---|-------------|
| Introductory Section | |
| Letter of Transmittal | 3 |
| City of Winston-Salem Organizational Chart..... | 7 |
| City of Winston-Salem Government Officials | 9 |
| Commission Members | 11 |
| Medical Review Board Members | 13 |
| Administrative Staff..... | 15 |
| Professional Services/Investment Managers..... | 17 |
| Financial Section | |
| Management's Discussion and Analysis | 21 |
| Financial Statements | |
| Comparative Statement of Plan Net Assets | 23 |
| Comparative Statement of Changes in Plan Net Assets | 24 |
| Notes to Financial Statements..... | 25 |
| Required Supplementary Information | |
| Schedule of Funding Progress | 27 |
| Schedule of Employer Contributions..... | 28 |
| Investment Section | |
| Letter from Deutsche Bank..... | 31 |
| Investments | 33 |
| Actuarial Section | |
| AON Actuarial Report | 41 |

Introductory Section



WINSTON-SALEM POLICE OFFICERS' RETIREMENT COMMISSION

*P.O. Box 2511
Winston-Salem, N C 27102
336.747.6900 FAX 336.727.2566*

Letter of Transmittal

December 31, 2012

*Chairman
Brenda B. Diggs*

Honorable Mayor and City Council
Winston-Salem Police Officers' Retirement System
Winston-Salem, NC

*Vice Chairman
Lt. Douglas A. Nance*

*Members
Lt. Tom Peterson*

*Alternate Members
Lt. Thomas E. Craven
Lt. Jeffrey T. Watson*

*Member Retired
Capt. Otis S. Belton, Jr.*

*City Council Member
Robert C. Clark*

It is our pleasure to submit the Annual Financial Report for the Winston-Salem Police Officers' Retirement System (WSPORS) for the fiscal year ended June 30, 2012. WSPORS is included in the City of Winston-Salem's (City) reporting entity and the Comprehensive Annual Financial Report (CAFR) as a fiduciary fund. The CAFR, which is submitted for review under the Certificate of Achievement for Excellence in Financial Reporting Program, is available online at www.cityofws.org, Finance Department. Management of the City is responsible for the integrity and objectivity of the financial statements and representations contained in this annual report.

The Report consists of four sections, described below:

- The Introductory Section containing the Letter of Transmittal, identification of the Mayor and City Council, the Winston-Salem Police Officers' Retirement System Commission, the administrative organization, and list of professionals who provide services to WSPORS.
- The Financial Section contains the Management Discussion and Analysis (MD&A), the financial statements of WSPORS, and supplementary information.
- The Investment Section contains a report on the investment activity, policies, and performance.
- The Actuarial Section contains certification of actuarial valuations and summaries of actuarial assumptions and methods.

Profile of the Retirement System

Winston-Salem Police Officers' Retirement System

WSPORS is a single-employer, defined benefit plan with required membership for sworn police officers. It was established by the City in 1977. At June 30, 2012, WSPORS had 874 members consisting of 310 retirees, beneficiaries of deceased retirees, vested terminated employees, and 564 active employees.

Members may retire with unreduced benefits after completing 30 years of creditable service or at age 55 with 5 years of creditable service. Officers retiring with unreduced benefits are entitled to annual benefits equal to 1.85% of average highest earnings for four consecutive years times the number of years of creditable service. The City established WSPORS, which is similar to the North Carolina Local Governmental Employees' Retirement System for Law Enforcement Officers, and authorizes benefit provisions and amendments, including post-retirement benefit increases.

Funding Status

A retirement fund is considered adequately funded when sufficient reserves are available to meet expected future obligations to its participants. The City is committed to annually budget the actuarially determined contribution to meet the current and future obligations. The valuation included in this report was completed with payroll data as of December 31, 2011 and is included in the Actuarial Section.

Investments

City Council has adopted an Investment Policy for all City funds inclusive of the investment of the retirement fund. The City Manager, with recommendation from the Chief Financial Officer and City Treasurer, has the authority, with the assistance of financial consultants, to select and employ asset managers to direct investment activities of WSPORS in accordance with the Investment Policy. The City has ten equity and four fixed income asset managers, whose performance is measured against appropriate market indices. Financial consultants are approved by City Council to assist the City in the selection and oversight of asset managers. Deutsche Bank Alex. Brown serves as the financial consultant that helps select and monitor the performance of WSPORS equity asset managers. Stephens, Inc. serves as the financial consultant that helps select and monitors performance of WSPORS fixed income asset managers.

If a asset manager's performance falls below the appropriate benchmarks for a period of three years, then the manager is replaced. A manager can be replaced at any time when there is unwarranted below benchmark performance, significant changes in key staff of the investment firm, or significant changes in the style or process of the manager. Managers may have assets under management changed by WSPORS to take advantage of new market opportunities, rebalance the asset allocations by style or by asset classification (e.g. equities vs. fixed income). Investments of WSPORS are generally limited to those investments that can be made by the North Carolina State Treasurer subject to limitations imposed by the City Investment Policy. All WSPORS assets are held in the custody of a irrevocable fiduciary master trust at U.S. Bank. WSPORS assets placed into the master trust may only be used to pay WSPORS benefits and are not subject to liens against the City of Winston-Salem.

It is a goal for WSPORS investments to perform at or above the 7.5% actuarially assumed rate of return over the long-term; typically ten years.

Professional Services

In addition to financial consultants, the City engages professionals to perform actuarial evaluations, custodian and trustee services, and annual audits. A list of the appointed professionals is included in the report.

Administration

The City Council established the Winston-Salem Police Officers' Retirement Commission to provide oversight to the benefits and investments of WSPORS. The Commission is composed of a member of the City Council, two sworn officers elected by members of WSPORS, one retired officer, and an unaffiliated citizen of Winston-Salem who serves as Chairperson of the Commission. Two additional elected sworn officers serve as Alternate Members.

The Chief Financial Officer (CFO) of the City serves as WSPORS Administrator and oversees both benefits administration and investments.

A Medical Review Board is established by City Council to review all disability retirement applicants. Upon recommendation of two or more of the members of the Medical Review Board, an officer may be recommended to the Retirement Commission for disability retirement.

Acknowledgements

The administration of WSPORS could not be accomplished without the dedicated services of the staff of the City Financial Management Services and Human Resources Departments. We would like to express our appreciation to all the members of these departments. We also express our appreciation to the Mayor, City Council, and the Winston-Salem Police Officers' Retirement Commission for their leadership and guidance.

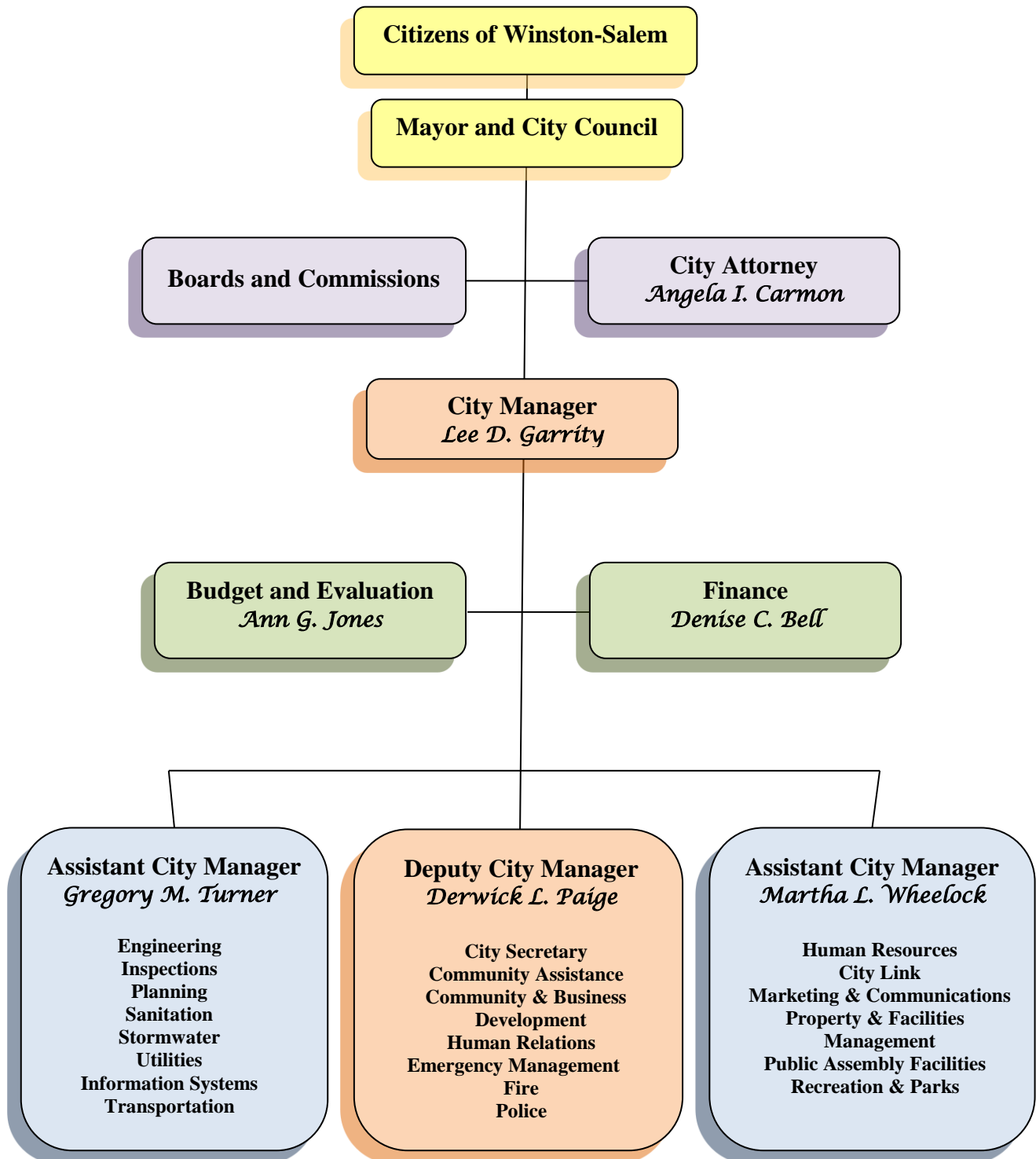
Respectfully submitted,

A handwritten signature in black ink that reads "Denise C. Bell". The signature is written in a cursive, flowing style.

Denise C. Bell
Administrator

City of Winston-Salem

Organizational Chart



City of Winston-Salem

Government Officials

City Council

| | |
|----------------------------|-------------------|
| Allen Joines | Mayor |
| Vivian H. Burke | Mayor Pro Tempore |
| Denise D. Adams | Member |
| Dan Besse | Member |
| Robert C. Clark | Member |
| Molly Leight | Member |
| Wanda Merschel | Member |
| Derwin L. Montgomery | Member |
| James Taylor, Jr. | Member |

Office of the City Manager

| | |
|--------------------------|------------------------|
| Lee D. Garrity | City Manager |
| Derwick L. Paige | Deputy City Manager |
| Gregory M. Turner | Assistant City Manager |
| Martha L. Wheelock | Assistant City Manager |

Financial Management Services

| | |
|------------------------|--|
| Denise C. Bell | Chief Financial Officer |
| Clark G. Case | Assistant Financial Officer/Treasurer |
| Lisa M. Saunders | Assistant Financial Officer/Controller |

Other Officials

| | |
|------------------------|-------------------------|
| Carmen Caruth | Human Resource Director |
| Angela I. Carmon | City Attorney |
| Alan Andrews | Deputy City Attorney |

Winston-Salem Police Officers' Retirement Commission
Winston-Salem, North Carolina

Commission Members

Brenda B. Diggs, Chairman, City Council Appointed
Robert C. Clark, City Council Member, City Council Appointed
Lt. Douglas A. Nance, Vice Chairman, Elected Member
Lt. Tom Peterson, Elected Member
Lt. Thomas E. Craven, Elected Alternate Member
Lt. Jeffrey T. Watson, Elected Alternate Member
Captain Otis S. Belton, Jr., Retired Member, City Council Appointed

City of Winston-Salem
Denise C. Bell, Administrator

FOR INFORMATION

Winston-Salem Police Officers' Retirement Commission
P. O. Box 2511
Winston-Salem, North Carolina 27102
(336) 747-6900
Fax: (336) 727-2566
Email: deniseb@cityofws.org
Web Site: www.cityofws.org

Winston-Salem Police Officers' Retirement System
Winston-Salem, North Carolina

Medical Review Board Members

Dr. Tadhg James O'Gara
Department of Orthopaedic Surgery
Wake Forest University Health Sciences

Orthopaedic

Dr. Stephen A. Hubbard
The Mobile Doc PLLC

Preventive & Occupational Medicine

Dr. Andreas D. Runheim
Salem Neurological Center

Neurology

Dr. Thomas W. Brown
Department of Psychiatry & Behavioral Medicine
Wake Forest University Health Sciences

Psychiatry

Winston-Salem Police Officers' Retirement System
Winston-Salem, North Carolina

Administrative Organization

Administrative Staff

Denise C. Bell
Chief Financial Officer

Lisa M. Saunders
Assistant Financial Officer/Controller

Clark G. Case
Assistant Financial Officer/Treasurer

Timothy A. Bauer
Investment Analyst

Donna C. Hull
Debt Manager

Shantell N. Davis
Employee Accounting/Payroll Manager

Sandra A. Killian
Senior Administrative Assistant

Winston-Salem Police Officers' Retirement System

Winston-Salem, North Carolina

Professional Services

| | |
|---|--|
| Deutsche Bank Alex. Brown Financial Consultant Equity Managers Winston-Salem, North Carolina | Stephens, Inc. Financial Consultant Fixed Income Managers Winston-Salem, North Carolina |
| Aon Hewitt Consulting Actuary Winston-Salem, North Carolina | Cherry, Bekaert & Holland, LLP External Auditors Raleigh, North Carolina |
| U. S. Bank Custodian and Trustee Bank Charlotte, North Carolina | |

Investment Managers

| Equity Managers | Fixed Income |
|---|---|
| Douglas C. Lane & Associates New York, New York | Garcia Hamilton & Associates Houston, Texas |
| Vanguard S&P 500 Fund Malvern, Pennsylvania | Standish Mellon Asset Management Co. Boston, Massachusetts |
| Neuberger Berman Group New York, New York | Wells Capital Management San Francisco, California |
| Diamond Hill Capital Management Columbus, Ohio | Miller Convertible I Fund Wellesley, Massachusetts |
| Westwood Management Dallas, Texas | |
| Schafer Cullen New York, New York | |
| EARNEST Partners Atlanta, Georgia | |
| Fred Alger Management Inc. New York, New York | |
| Systematic Financial Management Teaneck, New Jersey | |
| Thornburg Investment Management Santa Fe, New Mexico | |

Financial Section

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Management's Discussion and Analysis

The following is a narrative overview and analysis of the financial activities and funding status of WSPORS for the fiscal year ended June 30, 2012 with comparative data for 2011 and 2010.

Financial Highlights

- 1) WSPORS Net Assets (cash and cash equivalents) at June 30, 2012, were \$79.4 million, compared to the prior year of \$83.5 million. The decrease in net assets was due primarily to a decline in investment values in 2012. These funds are held in trust to meet future benefit payments.
- 2) Net investment loss for fiscal year ended 2012 was \$2.1 million (inclusive of investment expenses), compared to investment income of \$15.6 million for 2011.
- 3) Employer contributions for fiscal years ended 2012 and 2011 were \$4.6 million and \$5.6 million respectively. City contributions for both years met the annual required amounts per the actuarial valuation for those years.
- 4) WSPORS members contributed \$1.6 million and \$1.5 million for the fiscal years 2012 and 2011, respectively. These amounts are the required contributions of six percent of the members' salaries.
- 5) Benefit payments were \$8.1 million in fiscal year 2012 compared to \$7.8 million for fiscal year 2011.

Statement of Plan Net Assets

The Statement of Plan Net Assets reports all of the assets and liabilities of WSPORS, with the difference between the two being reported as net assets. Growth in the net assets indicates WSPORS financial position is improving.

During fiscal year 2012, net assets held in trust for future pension benefits decreased \$4.1 million, 4.9% from the prior fiscal year. Fiscal year 2011 grew by 21.5% from the prior fiscal year.

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets reports financial activity of WSPORS for the fiscal year with comparative data for fiscal years 2011 and 2010. Plan assets in fiscal years 2012 and 2011 have increased over \$10.7 million.

Contributions

All sworn police officers are WSPORS members and required to contribute six percent of their salaries to WSPORS by payroll deduction. Officer contributions for fiscal years 2012, 2011, and 2010 were \$1.6 million, \$1.5 million, and \$1.6 million, respectively. City contributions to WSPORS are a percentage of the police payroll and are determined by an independent actuarial valuation, which were 16.6% of annual police payroll for fiscal year 2012. Employer contributions were \$4.6 million, \$5.6 million, and \$5.5 million for fiscal years ended 2012, 2011 and 2010. The City is committed to fully funding the actuarially determined Annual Required Contribution.

WSPORS Membership

WSPORS is a single-employer, defined benefit plan with required membership for police officers. The following outlines WSPORS membership as of January 1, 2012 Actuarial Report:

| | 2012 | 2011 | 2010 |
|------------------------|-------------|-------------|-------------|
| Active Employees | 558 | 551 | 531 |
| Retirees/Beneficiaries | 283 | 277 | 260 |
| Vested Terminated | 23 | 17 | 19 |
| Total | 864 | 845 | 810 |

Funding Status

The funded ratio of WSPORS measures the ratio of the actuarially determined assets against actuarial liabilities and is a good indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. The valuation as of January 1, 2012 showed the funded status of WSPORS decreasing to 64.10% from 66.38% at January 1, 2011. WSPORS asset valuations use a five-year smoothed market basis. The actuarial value of assets was \$85.1 million, \$86.8 million, and \$86.6 million at January 1, 2012, 2011 and 2010, respectively. The actuarial accrued liability was \$132.8 million, \$130.8 million, and \$123.1 million at January 1, 2012, 2011, and 2010, respectively. The decrease in the funded ratio was principally due to lower returns across all global markets as a result of the depressed global economy of the past several years.

Contacting Financial Management

The financial report is designed to provide users with an overview of WSPORS financial performance. Questions regarding this report or requests for additional financial information should be directed to the Chief Financial Officer, City of Winston-Salem, P.O. Box 2511, Winston-Salem, North Carolina 27102.

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Comparative Statement of Plan Net Assets

June 30, 2012, 2011, and 2010

| | As of June 30 | | |
|---|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Assets | | | |
| Cash and cash equivalents | \$79,408,505 | \$83,508,629 | \$68,721,734 |
| Accounts receivable, net of allowance for uncollectibles | 18,637 | 18,637 | 18,637 |
| Total assets | 79,427,142 | 83,527,266 | 68,740,371 |
| Liabilities | | | |
| Accounts payable | - | 6,776 | 1,450 |
| Net Assets | | | |
| Held in trust for pension benefits | <u>\$79,427,142</u> | <u>\$83,520,490</u> | <u>\$68,738,921</u> |

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Comparative Statement of Changes in Plan Net Assets

For Fiscal Year Ended June 30, 2012, 2011, and 2010

| | Fiscal Year Ended June 30 | | |
|---|---------------------------|----------------------|---------------------|
| | 2012 | 2011 | 2010 |
| Additions | | | |
| Contributions | | | |
| Employer | \$ 4,587,422 | \$ 5,586,673 | \$ 5,549,502 |
| Plan members | 1,632,202 | 1,536,482 | 1,583,987 |
| Total contributions | 6,219,624 | 7,123,155 | 7,133,489 |
| Investment income (loss) | | | |
| Net appreciation (depreciation) in fair value | (3,059,212) | 14,545,055 | 6,143,185 |
| Interest and dividends | 1,516,471 | 1,528,664 | 1,532,434 |
| Total investment income (loss) | (1,542,741) | 16,073,719 | 7,675,619 |
| Less investment expense | 516,241 | 501,286 | 455,510 |
| Net investment income (loss) | (2,058,982) | 15,572,433 | 7,220,109 |
| Total additions | 4,160,642 | 22,695,588 | 14,353,598 |
| Deductions | | | |
| Benefits | 8,062,394 | 7,773,215 | 7,328,351 |
| Refund of contributions | 113,502 | 82,809 | 128,938 |
| Administrative expense | 78,094 | 57,995 | 40,573 |
| Total deductions | 8,253,990 | 7,914,019 | 7,497,862 |
| Net increase (decrease) | (4,093,348) | 14,781,569 | 6,855,736 |
| Net assets - beginning | 83,520,490 | 68,738,921 | 61,883,185 |
| Net assets - ending | \$ 79,427,142 | \$ 83,520,490 | \$68,738,921 |

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Notes to Financial Statements

Winston-Salem Police Officers' Retirement System

A single-employer, defined benefit plan with required membership for police officers, WSPORS was established by the City of Winston-Salem in 1977. At June 30, 2012, WSPORS had 874 members consisting of 310 retirees, beneficiaries of deceased retirees, vested terminated employees, and 564 active employees. Members may retire with unreduced benefits after completing 30 years of creditable service or at age 55 with 5 years of creditable service. Officers retiring with unreduced benefits are entitled to annual benefits equal to 1.85% of average highest earnings for four consecutive years times the number of years of creditable service. The City established WSPORS, which is similar to the North Carolina Local Governmental Employees' Retirement System for Law Enforcement Officers, and authorizes benefit provisions and amendments, including post-retirement benefit increases.

Summary of Significant Accounting Policies

Financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of WSPORS.

Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair market value. Securities traded on a national exchange are valued at the last reported sales price.

Contributions

The City Ordinances establish contribution requirements of WSPORS members and the City. Members are required to contribute 6% of their salary and contributions by the City are based upon annual actuarial valuations. The City has contributed 100% of the Annual Required Contribution (ARC) as determined by independent actuarial valuations since the inception of WSPORS. A schedule of the City contributions is included in the supplemental information following the notes. The City is responsible for the payment of administrative expenses of WSPORS as additional contributions.

In 2008, the City entered into a trust agreement with U.S. Bank National Association to establish an irrevocable trust for post-employment benefits including WSPORS assets.

Annual Pension Cost and Net Pension Obligation

The ARC for the current year was determined as part of the January 1, 2010, actuarial valuation using the projected unit credit method. The 2010 valuation actuarial assumptions include (a) projected salary increases of 0% in 2010, 5.5% thereafter compounded annually, (b) no post-retirement benefit increases, and (c) an average rate of return on investment of present and future assets of 7.5%. Assets of WSPORS for actuarial valuation are reported at market value.

At January 1, 2012, WSPORS had an actuarially determined unfunded accrued liability of \$47,657,038, which reflects asset valuations using a five-year smoothed market value method without phase-in. The accrued liability is being amortized over 25 years using the level dollar closed method. WSPORS at June 30, 2012, does not have a net pension obligation.

Funding Status and Funding Progress

At January 1, 2012, the most recent actuarial valuation date, WSPORS was 64.10% funded. The actuarial accrued liability for benefits was \$132,767,280, and the actuarial value of assets was \$85,110,242, resulting in an unfunded actuarial accrued liability (UAAL) of \$47,657,038. The covered payroll of WSPORS was \$25,654,625, and the ratio of the UAAL to the covered payment was 185.76%. The results of the actuarial reviews are included in this report starting on page 44.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of WSPORS assets are increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded (Overfunded) AAL (UAAL) (b-a) | Funded Ratio a/b | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b-a]/c) |
|---|--|--|---|---------------------------------|------------------------------------|--|
| 1/1/2012 | \$ 85,110,242 | \$ 132,767,280 | \$47,657,038 | 64.10% | \$ 25,654,625 | 185.76% |
| 1/1/2011 | 86,839,645 | 130,818,320 | 43,978,675 | 66.38 | 25,396,559 | 173.17 |
| 1/1/2010 | 86,576,235 | 123,103,371 | 36,527,136 | 70.33 | 26,025,207 | 140.35 |
| 1/1/2009 | 86,945,457 | 130,099,380 | 43,153,923 | 66.83 | 24,610,353 | 175.35 |
| 1/1/2008 | 86,668,120 | 125,530,382 | 38,862,262 | 69.04 | 24,341,160 | 159.66 |
| 1/1/2007 | 80,064,171 | 115,147,219 | 35,083,048 | 69.53 | 21,562,998 | 162.70 |
| 1/1/2006 | 71,684,566 | 106,841,281 | 35,156,715 | 67.09 | 20,153,766 | 174.44 |
| 1/1/2005 | 73,000,533 | 102,279,264 | 29,278,729 | 71.37 | 19,847,353 | 147.52 |
| 1/1/2004 | 75,264,668 | 99,703,966 | 24,439,298 | 75.49 | 19,915,189 | 122.72 |
| 1/1/2003 | 78,719,976 | 92,152,657 | 13,432,681 | 85.42 | 19,086,223 | 70.38 |
| 1/1/2002 | 82,256,316 | 86,303,873 | 4,047,557 | 95.31 | 17,636,803 | 22.95 |

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Schedule of Employer Contributions

| Fiscal Year Ending | Winston-Salem Police Officers' Retirement System | |
|-----------------------------------|---|--|
| | Required Contribution | Annual Percentage Contributed |
| 2012 | \$ 4,324,629 | 100% |
| 2011 | 5,324,788 | 100 |
| 2010 | 4,832,238 | 100 |
| 2009 | 4,299,153 | 100 |
| 2008 | 4,167,474 | 100 |
| 2007 | 3,455,026 | 100 |
| 2006 | 3,012,374 | 100 |
| 2005 | 1,932,891 | 100 |
| 2004 | 1,087,426 | 100 |
| 2003 | 612,412 | 100 |
| 2002 | 582,234 | 100 |

Investment Section



November 8, 2012

Deutsche Bank Alex. Brown
A Division of Deutsche Bank Securities Inc.
100 North Main Street, Suite 2400
Winston-Salem, NC 27101

Ms. Denise Bell
City Finance Director
City of Winston-Salem
Financial Management Services
101 N. Main Street
Winston-Salem, NC 27102

Dear Ms. Bell:

Deutsche Bank Alex. Brown advises The City of Winston-Salem on the equity investments in the funds, which are under the supervision of the City Finance Director. These funds include the Winston-Salem Police Officers Retirement System. The City of Winston-Salem has in place an Investment Policy which provides guidelines for the funds' investment program.

The Policy outlines the asset allocation parameters for the Police Officers Retirement Fund. Those parameters include a combination of cash, fixed income and equities. The Policy also states that there must be at least three equity asset managers to direct the activities of funds and that the managers selected will make all investments in equities for the City.

As of September 30, 2012, the City had six outside equity managers on the roster. All of these managers represent a different investment style. There is one large cap core (S&P 500) manager and one large cap value manager focused on high dividend equities. The City also uses two index funds which address the large cap core sectors. There is a US mid capitalization value manager and US small capitalization value and growth managers. These managers purchase securities traded on US listed or over-the-counter exchanges. There is one international developed market core manager that only purchases foreign equity securities traded on US exchanges, also known as ADR's.

Deutsche Bank Alex. Brown also calculates and monitors the performance of the City's equity managers on a quarterly basis. The returns are calculated from monthly statements provided by the City's custodian, which is US Bank. The returns are calculated net of custodian, investment management and transaction fees. We deliver performance reports that include a quarterly review of the market, a review of the asset allocation versus the investment policy targets, the consolidated performance of the Fund's equity managers over cumulative and annual time periods versus its benchmark, and performance of the Fund's managers versus their benchmarks and peers over cumulative and annual time periods. Risk characteristics are also calculated and monitored quarterly.

We also meet with the City's representatives at least quarterly to discuss the performance of the overall Fund and that of its individual managers. Those meetings include an in-depth review of the current and prospective market environment, which is



provided by Deutsche Bank's global investment strategists. The City maintains a long-term investment strategy in its asset allocation, but we discuss the Fund's performance in the context of the current and expected market outlook and make recommendations accordingly.

Sincerely,

Philip L. Thomas
Director

"Deutsche Bank" means Deutsche Bank AG and its affiliated companies. Deutsche Bank Private Wealth Management refers to Deutsche Bank's wealth management activities for high-net-worth clients around the world. Deutsche Bank Alex. Brown is the private client business division of Deutsche Bank Securities Inc., a subsidiary of Deutsche Bank AG, which conducts investment banking and securities activities in the United States. Deutsche Bank Securities Inc. is a member of FINRA, NYSE and SIPC. 010366 012012.

Winston-Salem Police Officers' Retirement System

A Fiduciary Fund of the City of Winston-Salem

Investments

Introduction

The purpose of the Investments Section is to provide the reader with data reflecting the investment policy, operations and performance of WSPORS.

Investment Policies and Objectives

Overview

The City established an investment portfolio to provide retirement benefits for sworn police officers who are eligible to receive pension benefits in WSPORS. City ordinances require each member to contribute through payroll deduction six percent of their annual salary to WSPORS. The City is required to contribute such amounts in addition to the member contribution as required to maintain WSPORS on a solvent actuarial reserve basis for all future service benefits. These funds are invested by WSPORS to provide for the accumulation of money in an actuarially sound method so that the burden on taxpayers will be spread over the years of a member's service to the City. Investment results are considered to be a critical element in achieving WSPORS funding goals.

Investment Objectives

Assets in WSPORS are governed by an Investment Policy adopted by City Council which is designed to set forth policies and guidelines for those who administer and invest the funds in the portfolio. City Council also approves financial consultants to assist the City in selection and on-going evaluation of asset managers for fixed income and equity investments.

The actuarial assumption for WSPORS was adjusted downward to expect a long-term compound rate of return of 7.5% effective January 1, 2010. While market conditions can produce periods where such returns are difficult to achieve, the asset managers are expected to meet the long term performance objectives of WSPORS. It is the investment objective to meet or exceed the assumed investment rate of 7.5%. While the current five year performance is behind this goal due to the unusually severe downturn of 2008 and 2009, WSPORS has been at or above this goal throughout most of the 1990's and 2000's. From a historical perspective, WSPORS should achieve its long-term investment goals.

Investment Policy

City Council has adopted an Investment Policy for all City funds inclusive of the investment of the retirement fund. The City Manager, with recommendation from the Chief Financial Officer and City Treasurer, has the authority, with the assistance of financial consultants, to

select and employ asset managers to direct investment activities of WSPORS in accordance with the Investment Policy. The City has ten equity and four fixed income asset managers, whose performance is measured against appropriate market indices. Financial consultants are approved by City Council to assist the City in the selection and oversight of asset managers. Deutsche Bank Alex. Brown serves as the financial consultant that helps select and monitor the performance of WSPORS equity asset managers. Stephens, Inc. serves as the financial consultant that helps select and monitors performance of WSPORS fixed income investment managers.

If an asset manager's performance falls below the appropriate benchmarks for a period of three years, then the manager is replaced. A manager can be replaced at any time when there is unwarranted below benchmark performance, significant changes in key staff of the investment firm, or significant changes in the style or process of the manager. Managers may have assets under management changed by WSPORS to take advantage of new market opportunities, or to rebalance the asset allocations by style or asset classification (e.g. equities vs. fixed income). All WSPORS assets are held in the custody of an irrevocable fiduciary master trust at U.S. Bank. WSPORS assets placed into the master trust may only be used to pay WSPORS benefits and are not subject to liens against the City of Winston-Salem.

The City's ability to invest WSPORS assets in long-term fixed income and equity assets are empowered and limited by North Carolina General Statutes. While state statute permits the City to invest WSPORS assets in anything the NC State Treasurer can invest, the City's Investment Policy as approved by the City Council is more restrictive and conservative. The Policy does not permit investing in some of the riskier instruments such as private equity funds, hedge funds or direct investments in real estate or timber. It is a goal for WSPORS investments to perform at or above the 7.5% actuarially assumed rate of return over the long-term; typically ten years.

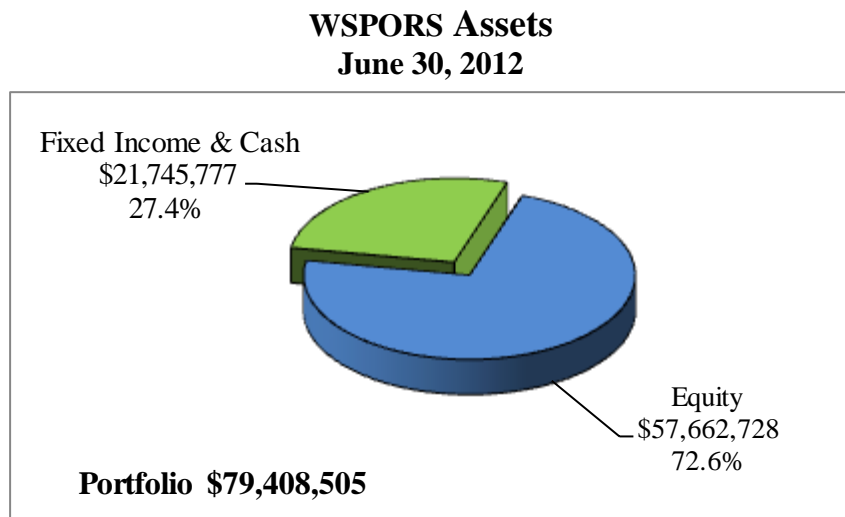
Risk Tolerance:

The assets of WSPORS are long-term holdings and should be invested with a risk orientation that is consistent with a moderate ability to assume risk. The City of Winston-Salem provides risk tolerance information to its investment consultants and investment managers, so that assets are managed in a manner consistent with the City's objectives and investment strategy as designated in the City Investment Policy. The City of Winston-Salem defines risk as the chance of recognizing a permanent loss, not simply short-term price fluctuation (volatility) or market risk. Volatility is a statistical measure of price change only and has little bearing on the inherent value of an underlying security or investment in the long-term. Market Risk is short-term market price fluctuation in holdings and is separate from Investment Risk. Investment Risk is a loss of capital due to a permanent impairment of the investment holding. Therefore, the risk management objective is to manage the City's assets with the goal of capital preservation relative to inflation risk by avoiding permanent impairment of the capital of the City of Winston-Salem.

Asset Allocation:

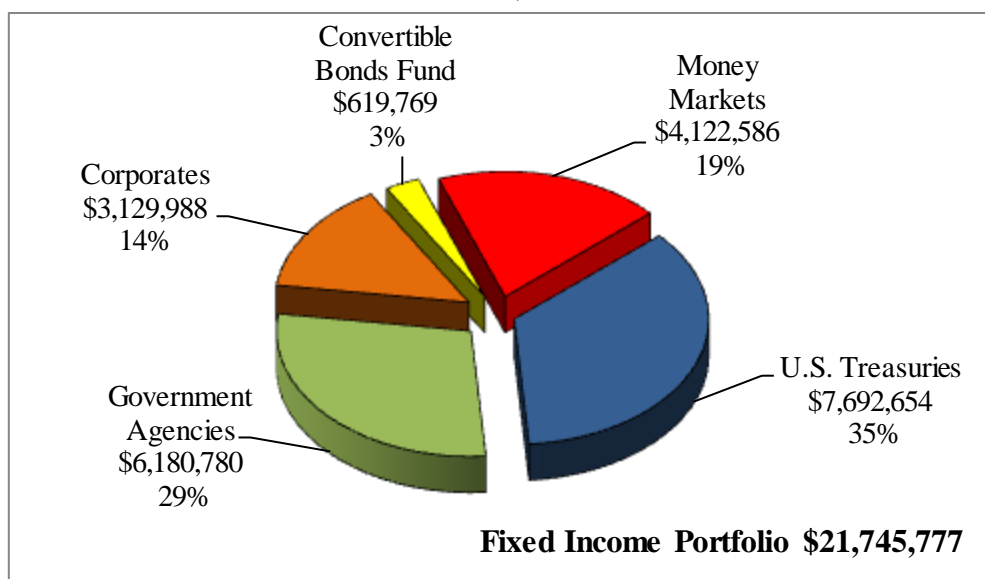
Asset allocation is a strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio. Based on the principle that asset types perform differently in different market and economic conditions, asset allocation is an important factor in determining returns for an investment portfolio. Target asset allocations are set by ranges by the Chief Financial Officer and City Treasurer with the assistance of financial consultants and adjusted within those ranges from time to time to adjust for market conditions.

The WSPORS assets are divided into fixed income and equity portfolios. Each portfolio is overseen by a financial consultant who assists in the selection of asset managers and independently monitors and reports to the City and the Winston-Salem Police Officers' Retirement Commission, the performance of each manager and of each portfolio as a whole. The current asset allocations between the equity and fixed income portfolios are:



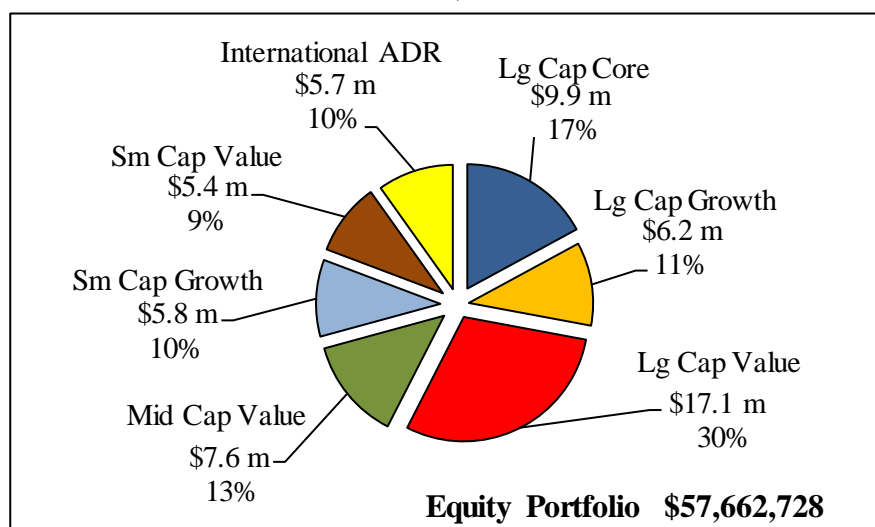
Fixed income investments are overseen by Stephens, Inc. as financial consultant. The fixed income investments are invested by four external investment management firms: Garcia Hamilton & Associates, Standish Mellon Asset Management Company, Miller Convertible I Fund, and Wells Capital Management Inc. The following graph breaks the portfolio by investment type.

**Fixed Income Portfolio
by Investment Type
June 30, 2012**



Equity investments are overseen by Deutsche Bank Alex. Brown as financial consultant. The equity investments are managed by ten asset management firms providing active management by investment style.

**Equity Portfolio
by Investment Type
June 30, 2012**



Portfolio by Investment Managers

June 30, 2012

| | <u>Investment Type</u> | <u>Totals</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Equity Portfolio | | |
| Douglas C. Lane & Associates | <i>Large Cap Core</i> | \$ 6,423,266 |
| Vanguard S&P 500 Fund | <i>Large Cap Core</i> | 3,433,668 |
| Neuberger Berman Group | <i>Large Cap Growth</i> | 6,245,996 |
| Westwood Management | <i>Large Cap Value</i> | 7,378,927 |
| Diamond Hill Capital Mgmt. | <i>Large Cap Value</i> | 6,544,539 |
| Schafer Cullen | <i>Large Cap Value</i> | 3,142,562 |
| Earnest Partners | <i>Mid Cap Value</i> | 7,632,887 |
| Fred Alger Management Inc. | <i>Small Cap Growth</i> | 5,755,291 |
| Systematic Financial Mgmt. | <i>Small Cap Value</i> | 5,419,368 |
| Thornburg Investment Mgmt. | <i>Int'l ADR</i> | 5,686,224 |
| Total Equity Portfolio | | <u>\$ 57,662,728</u> |
| Fixed Income Portfolio | | |
| Garcia Hamilton & Associates | <i>1-3 Yr. Gov't</i> | 7,248,608 |
| Standish Mellon Asset Mgmt Co. | <i>Int. Gov't/Credit A+</i> | 6,171,720 |
| Wells Capital Management Inc. | <i>1-3 Yr. Treasuries</i> | 4,092,427 |
| Miller Convertible I Fund | <i>Convertible Bd Index</i> | 619,764 |
| First American Money Market | <i>Money Market</i> | 3,613,258 |
| Total Fixed Income Portfolio | | <u>\$ 21,745,777</u> |
| Total Portfolio | | <u>\$ 79,408,505</u> |

Investment Performance

The following steps were taken in Fiscal Year 2011-2012 to improve portfolio performance and further diversify the portfolio. A Vanguard S&P 500 indexed mutual fund was added to the investment managers to provide the WSPORS fund with the ability to more quickly move assets, take advantage of lower fees charged by passive index funds, and to take advantage of recent outperformance of index funds over active large cap managers. Schafer Cullen was added as a high dividend yield investment manager to provide better yields than would be available by having those funds in fixed income investments.

Portfolio Performance

June 30, 2012

| | Investment Type | Rate of Return | | |
|---|-----------------------------|----------------|---------------|---------------|
| | | Fiscal Year | Annualized | |
| | | | 3 Yr | 5 Yr |
| Equity Managers | | | | |
| Douglas C. Lane & Associates ⁽¹⁾ | <i>Large Cap Core</i> | 3.98% | -% | -% |
| Vanguard S&P 500 Fund ⁽²⁾ | <i>Large Cap Core</i> | 13.29 | - | - |
| Neuberger Berman Group ⁽³⁾ | <i>Large Cap Growth</i> | 0.33 | - | - |
| Diamond Hill Capital Management | <i>Large Cap Value</i> | 0.30 | 13.90 | - |
| Westwood Management | <i>Large Cap Value</i> | 0.43 | 12.08 | -1.34 |
| Schafer Cullen ⁽⁴⁾ | <i>Large Cap Value</i> | 3.29 | - | - |
| EARNEST Partners | <i>Mid Cap Value</i> | -2.90 | 18.57 | 2.13 |
| Fred Alger Management Inc. | <i>Small Cap Growth</i> | -3.82 | 18.27 | 2.77 |
| Systematic Financial Management | <i>Small Cap Value</i> | -2.63 | 18.91 | 1.99 |
| Thornburg Investment Management | <i>Int'l ADR</i> | -13.25 | 8.41 | -2.31 |
| Combined Equity Portfolio | | -2.44% | 14.02% | -1.27% |
| Fixed Income Managers | | | | |
| Garcia Hamilton & Associates | <i>1-3 Yr. Gov't</i> | 2.39% | 2.81% | 4.32% |
| Standish Mellon Asset Management | <i>Int. Gov't/Credit A+</i> | 5.66 | 5.75 | 6.87 |
| Wells Capital Management Inc. | <i>1-3 Yr. Treasuries</i> | 0.88 | 1.65 | 4.43 |
| Miller Convertible I Fund ⁽⁵⁾ | <i>Convertible Bd Index</i> | -4.18 | - | - |
| Combined Fixed Income Portfolio | | 2.83% | 3.22% | 4.79% |
| Total System Return | | -2.57% | 10.30% | 0.53% |

⁽¹⁾ Douglas C. Lane & Associates inception date is 11/16/10.

⁽²⁾ Vanguard S&P 500 Fund inception date is 12/15/2011.

⁽³⁾ Neuberger Berman Group inception date is 9/11/09.

⁽⁴⁾ Schafer Cullen inception date is 4/1/2012.

⁽⁵⁾ Miller Convertible I Fund inception date is 2/7/2011.

Portfolio Returns

As of June 30

| Fiscal Year | Rate of Return | | |
|-----------------------------------|----------------|--------------|-----------------|
| | Equity | Fixed Income | System Combined |
| 2012 | -2.44% | 2.83% | -2.57% |
| 2011 | 31.79 | 2.25 | 23.49 |
| 2010 | 14.52 | 4.71 | 11.52 |
| 2009 | -28.37 | 6.06 | -17.83 |
| 2008 | -11.58 | 8.35 | -6.87 |
| 2007 | 20.42 | 5.39 | 17.04 |
| 2006 | 12.21 | 1.01 | 10.68 |
| 2005 | 11.09 | 4.01 | 9.95 |
| 2004 | 18.54 | -0.58 | 15.09 |
| 2003 | -3.15 | 9.60 | -0.57 |
| Annualized 10 Years Return | | | 5.28% |

Actuarial Section

Actuarial Report

The City of Winston-Salem

*Actuarial Valuation of the Winston-Salem Retirement Plan for
Sworn Police Officers (Reflecting GASB Nos. 25 and 27)*

As of January 1, 2012





September 7, 2012

Retirement Commission
City of Winston-Salem Police
Winston-Salem, North Carolina

We respectfully present in this report the results of our actuarial valuation of the Winston-Salem Retirement Plan for Sworn Police Officers. This report's principal purpose is to provide information regarding:

- the financial condition of your Plan,
- actuarial guidance for determining contributions to the fund,
- information needed by your auditors and government agencies, and
- review past plan experience.

For your convenience, we have summarized the highlights and essential results of the valuation in the Summary of Results. The Table of Contents following this letter outlines the text and tables included in this report.

A handwritten signature in black ink, appearing to read "Michael Bost".

Michael S. Bost, F.S.A., E.A.
Partner

Aon Hewitt
University Corporate Center
P.O. Box 66
Winston-Salem, NC 27102-0066
(336) 748-1120

cc:
Ms. Erika R. Stiff, Aon Hewitt

/rt



Table of Contents

| | |
|---|-----------|
| Summary of Results | 1 |
| Review and Analysis..... | 4 |
| Plan Experience and Funding..... | 5 |
| Changes..... | 6 |
| Actuarial Certification..... | 8 |
| Valuation Method and Assumptions | 10 |
| Valuation Method | 10 |
| Valuation of Assets | 10 |
| Employees Included in the Calculations..... | 10 |
| Actuarial Assumptions | 10 |
| Other Considerations..... | 14 |
| Financial Statements | 16 |
| Development of Actuarial Value of Assets | 16 |
| Liabilities | 17 |
| Employer Contributions for the Prior Plan Year..... | 18 |
| Employee Contributions for the Prior Plan Year..... | 18 |
| Summary of Principal Plan Provisions | 20 |
| General Information | 20 |
| Eligibility | 20 |
| Service..... | 20 |
| Normal Retirement Date | 20 |
| Normal Retirement Benefit | 20 |
| Delayed Retirement | 20 |
| Average Compensation | 20 |
| Accrued Benefit..... | 21 |
| Early Retirement Benefit..... | 21 |
| Disability Retirement Benefit..... | 21 |
| Death Benefit | 21 |
| Severance Benefit..... | 21 |
| Optional Methods of Settlement | 22 |
| Retiree Benefits | 22 |
| Employee Contributions..... | 22 |
| Supporting Data | 24 |
| Number of Costed Employees..... | 24 |
| Age and Service Schedule - Costed Active Employees..... | 24 |
| Summary Statistics | 25 |
| Appendices | 26 |
| Development of Unfunded Accrued Liability..... | 27 |
| Annual Required Contribution..... | 28 |
| Statement of Funded Status | 28 |
| Information for Auditors | 29 |



Summary of Results

**Summary of Financial Information**

| Valuation Date | 01/01/2011 | 01/01/2012 |
|--|---------------|---------------|
| 1. Annual Required Contribution (ARC) ¹ | \$5,093,595 | \$6,084,641 |
| As % of Total Payroll | 20.1% | 23.7% |
| 2. City Normal Cost | \$1,423,496 | \$1,482,050 |
| As % of Total Payroll | 5.6% | 5.8% |
| 3. Actual City Contribution | \$4,869,105 | N/A |
| As % of Total Payroll | 19.2% | |
| 4. Actual Employee Contribution | \$1,550,839 | N/A |
| 5. Expected Employee Contribution | \$1,505,303 | \$1,554,670 |
| 6. Market Value of Assets | \$80,781,130 | \$76,965,532 |
| 7. Valuation Assets | \$86,839,645 | \$85,110,242 |
| 8. Accrued Liability (Projected Unit Credit) | \$130,818,320 | \$132,767,280 |
| 9. Unfunded Accrued Liability (Surplus) | \$43,978,675 | \$47,657,038 |

¹ The Annual Required Contribution (ARC) is a defined term under GASB No. 27. The ARC is used to determine the Annual Pension Cost. The City does not actually have a required contribution since it is not subject to the Employee Retirement Income Security Act (ERISA).

Effective January 1, 2012, the ARC shown has been adjusted for eighteen (18) months of interest, since the ARC shown is applicable to the fiscal year beginning 18 months after the valuation date.



Valuation Data

| | 01/01/2011 | 01/01/2012 |
|---|--------------|--------------|
| 1. Active Employees Submitted | 551 | 558 |
| 2. Number of Employees Costed | | |
| a. Active Employees | 551 | 558 |
| b. Retirees and Beneficiaries | 277 | 283 |
| c. Vested Terminations and Transfers | <u>17</u> | <u>23</u> |
| d. Total Employees Costed | 845 | 864 |
| 3. Total Active Submitted Payroll | \$24,643,816 | \$24,991,707 |
| Percent Increase | (1.8%) | 1.4% |
| 4. Annualized Payroll of Costed Employees | \$25,396,559 | \$25,654,625 |
| Percent Increase | (2.4%) | 1.0% |
| 5. Average Annualized Payroll of Costed Employees | \$46,092 | \$45,976 |
| Percent Increase | (6.0%) | (0.3%) |



Review and Analysis



Plan Experience and Funding

A primary actuarial objective of the Projected Unit Credit Method is to choose actuarial assumptions so as to minimize net actuarial gains and losses over several actuarial valuations. Since January 1, 2002, the record of gains and losses has been as follows:

| <u>Valuation Date</u> | <u>Total Actuarial Gain (Loss) in Prior Plan Year</u> | <u>Gain (Loss) from Investment Experience¹</u> | <u>Gain (Loss) from Liability Experience</u> |
|-----------------------|---|---|--|
| 01/01/02 | \$ (13,032,107) | \$ (12,480,226) | \$ (551,881) |
| 01/01/03 | (9,072,886) | (7,492,953) | (1,579,933) |
| 01/01/04 | (8,416,743) | (7,025,295) | (1,391,448) |
| 01/01/05 | (5,092,677) | (5,645,504) | 552,827 |
| 01/01/06 | (4,908,472) | (5,138,649) | 230,177 |
| 01/01/07 | (3,906,957) | (2,022,512) | (1,884,445) |
| 01/01/08 | (1,138,376) | 22,079 | (1,160,455) |
| 01/01/09 | (6,649,768) | (6,638,665) | (11,103) |
| 01/01/10 | (9,992,834) | (7,720,358) | (2,272,476) |
| 01/01/11 | (7,389,754) | (5,639,783) | (1,749,971) |
| 01/01/12 | (7,672,441) | (6,624,102) | (1,048,339) |

The following illustration compares the major actuarial assumptions to aggregate measures of actual plan experience for the 2011 plan year.

| <u>Assumed</u> | | <u>Actual</u> | | | | | |
|--|-------------------|---------------|-------------|-------------|-------------|-------------|--------------------------------|
| | | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>5-Year Weighted Average</u> |
| Investment return, market value basis | N/A | (2.8%) | 13.6% | 19.1% | (29.7%) | 9.2% | 0.2% |
| Investment return, asset valuation basis | 7.5% | (0.2%) | 1.0% | (0.1%) | 1.1% | 9.0% | 2.1% |
| Salary increase per year | 5.5% ² | 1.0% | (3.6%) | 6.5% | 1.7% | 14.3% | 3.8% |

¹ Measured on an Actuarial Value of Assets basis.

² Prior to 2009 the salary scale assumption was 6.5%. In 2009 the salary scale was changed to 1.5% in 2009 and 6.5% thereafter. Effective January 1, 2010, the salary scale assumption was 0% in 2010 and 5.5% thereafter. Effective January 1, 2011, the salary scale assumption is 1.5% in 2011 and 5.5% thereafter.



Changes

The mortality table was updated from the RP-2000 IRS PPA @ 2011 Combined Healthy Tables for Males and Females (Small Plan Mortality) to the RP-2000 IRS PPA @ 2012 Combined Healthy Tables for Males and Females (Small Plan Mortality).

The following demographic assumptions have been updated following the City's acceptance of recommended changes based on an actuarial assumption review performed by Aon Hewitt with data through January 1, 2012.

The salary scale assumption was revised from 5.5% for all years to 1.0% in 2012, 1.5% in 2013, 2.0% in each of the years 2014– 2016, 2.5% in 2017, 3.0% in 2018, and 5.0% thereafter.

Termination rates have been updated to vary by age and service for service between 0 and 5 years.

Retirement rates have been updated to include rates between ages 50 and 55 and service less than 29 years.

The Annual Required Contribution calculation has been adjusted to include 18-months of interest.

The change in Annual Required Contribution (ARC) attributable to these changes is:

| | Rate as % of Costed Payroll | Amount |
|--|--------------------------------|---------------|
| Expected Annual Required Contribution as of January 1, 2012 based on 2011 assumptions and Data | 22.9% | \$5,905,167 |
| Changes due to: | | |
| Adjustment to Include 18 months of interest | 2.6% | \$676,636 |
| Update to 2012 basis (data & mortality) | 0.4% | \$90,291 |
| Salary scale change | (3.9%) | (\$1,010,024) |
| Change in Termination rates | 0.3% | \$72,119 |
| Change in Retirement rates | 1.4% | \$350,452 |
| Net Change | 0.8% | \$179,474 |
| Annual Required Contribution as of January 1, 2012 | 23.7% | \$6,084,641 |



Actuarial Certification



Winston-Salem Retirement Plan for Sworn Police Officers

We have made an actuarial valuation of this Plan as of January 1, 2012. The employee data and financial information used in this valuation were not audited by us. On the basis of our review of the data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

In my opinion, each assumption used in this valuation is reasonable taking into account the experience of the Plan and reasonable expectations, or would, in the aggregate, result in a total contribution equivalent to that which would be determined if each assumption were reasonable. The methods employed in this valuation are consistent with generally accepted actuarial principles and practices. The undersigned meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein.

In my opinion, this actuarial valuation was performed using methods and assumptions that are consistent with the parameters required under GASB Statements 25 and 27.

Therefore, the information as presented in this Actuarial Report for funding purposes fully and fairly discloses the actuarial position of the Plan.

Aon Hewitt

A handwritten signature in black ink that reads "Erika Stiff".

Erika R. Stiff, E.A.
Enrollment Number 11-07811
Post Office Box 66
Winston-Salem, NC 27102
(336) 748-1120



Valuation Method and Assumptions



Valuation Method

The method of valuation used for pension benefits is called the Projected Unit Credit Method. Under this method, actuarial gains and losses are reflected immediately through a change in the unfunded accrued liability. These gains and losses will be amortized in aggregate as a level dollar amount over 25 years.

Valuation of Assets

Valuation assets have been determined by using a 5-year smoothed market value method without phase-in as described in Revenue Ruling 2000-40, Section 3.15. For the 2007 valuation, the asset value was reset back to market value. Assets are placed in an irrevocable trust under a Master Trust agreement with US Bank.

No discounted deferred liability to provide for the repayment of the certificates of participation has been reflected.

The financial information used in this valuation was not audited by Aon Hewitt.

Employees Included in the Calculations

All active employees who have met the plan's eligibility requirements as of the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan are also included.

Actuarial Assumptions

- | | |
|---|---|
| 1. Mortality | |
| a. Active participants and nondisabled pensioners | RP 2000 IRS PPA @ 2012 Combined Healthy Tables for Males and Females (Small Plan Mortality). This standard table includes projected mortality improvements under scale-AA as determined by the IRS. |
| b. Disabled pensioners | The 1985 Railroad Retirement Board Totally Disabled Mortality Table |
| 2. Disability Rates | See Table 1 |
| 3. Termination | See Table 2 |
| 4. Retirement | See Table 3 |
| 5. Salary progression | See Table 4 |
| 6. Interest rate used for determining | |
| a. Normal funding | |
| (1) Preretirement | 7.5% |
| (2) Postretirement | 7.5% |
| b. Return on Employee Contributions | 4% |
| 7. Expenses | None |
| 8. Social Security | Not applicable |
| 9. Cost-of-Living Adjustment | None |



Table 1

Disability Rates

| Age | Unisex |
|-----|--------|
| 25 | .060% |
| 30 | .080% |
| 35 | .160% |
| 40 | .600% |
| 45 | 1.120% |
| 50 | 1.178% |
| 55 | 0.000% |



Table 2

Termination Rates

| Termination Rates - Unisex | | | | | | |
|----------------------------|---------|---------|--------|--------|--------|--------|
| Years of Service | | | | | | |
| Age | 0 | 1 | 2 | 3 | 4 | 5+ |
| <20 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.500% |
| 21 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.500% |
| 22 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.500% |
| 23 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.500% |
| 24 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.500% |
| 25 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.100% |
| 26 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.100% |
| 27 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.100% |
| 28 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.100% |
| 29 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 4.100% |
| 30 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.825% |
| 31 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.825% |
| 32 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.825% |
| 33 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.825% |
| 34 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.825% |
| 35 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.700% |
| 36 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.700% |
| 37 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.700% |
| 38 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.700% |
| 39 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 3.700% |
| 40 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.975% |
| 41 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.975% |
| 42 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.975% |
| 43 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.975% |
| 44 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.975% |
| 45 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.950% |
| 46 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.950% |
| 47 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.950% |
| 48 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.950% |
| 49 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.950% |
| 50 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.800% |
| 51 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.800% |
| 52 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.800% |
| 53 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.800% |
| 54 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.800% |
| >55 | 15.000% | 10.000% | 9.000% | 7.500% | 7.500% | 2.625% |



Table 3

Retirement Rates

| Retirement Rates – Unisex | | |
|---------------------------|------|------|
| Years of Service | | |
| Age | 5-28 | 29+ |
| 50 | 5% | 100% |
| 51 | 5% | 100% |
| 52 | 10% | 100% |
| 53 | 10% | 100% |
| 54 | 10% | 100% |
| >55 | 100% | 100% |

Table 4

Salary Scale

| Year | Assumed Increase |
|----------------|------------------|
| 2012 | 1.0% |
| 2013 | 1.5% |
| 2014 | 2.0% |
| 2015 | 2.0% |
| 2016 | 2.0% |
| 2017 | 2.5% |
| 2018 | 3.0% |
| 2019 and after | 5.0% |



Other Considerations

1. For purposes of valuing withdrawal benefits, all employees are assumed to take their contributions from the trust upon terminating.
2. For the purpose of valuing death benefits, it is assumed that all employees are married to a spouse of equal age.
3. Although we believe these to be accurate and complete, employee data supplied to us by the Employer and financial information supplied to us by the Trustee have not been audited by us.
4. We rely on the Employer to inform us of any former participants who have been rehired and lost prior service because of the length of their break in service. These employees may have participation requirements different from other new employees.
5. In order to more accurately develop contribution levels as a percentage of pay, an annualized compensation (as reflected on page 3) has been used.
6. GASB accounting standards provide for the calculation of a Net Pension Obligation (NPO) and corresponding adjustments to the Annual Required Contribution (ARC) to calculate annual pension cost. Because any difference between the ARC and actual employer contributions would be due to the time lag between the actuarial report completion and an update of employer contributions (made monthly), the City has chosen to not reflect any NPO under the premises of timing and materiality. Similarly, the City chooses not to reflect a Net Pension Asset when contributions exceed the ARC. When the NPO is \$0, annual pension cost equals the ARC.



Financial Statements



Development of Actuarial Value of Assets

| | |
|---|----------------|
| 1. Market value as of 1/01/2011 | \$ 80,781,130 |
| 2. Employee contributions for the plan year | \$ 1,550,839 |
| 3. Employer contributions for the plan year | \$ 4,869,105 |
| 4. Benefit payments from 1/01/2011 to 12/31/2011 | \$ 7,999,099 |
| 5. Expected interest at 7.50% through 12/31/2011 | |
| a. On [1] | \$ 6,058,585 |
| b. On [2] and [3] | 255,701 |
| c. On [4] | <u>294,543</u> |
| d. Net expected interest ([a] + [b] - [c]) | \$ 6,019,743 |
| 6. Expected market value as of 12/31/2011 ([1] + [2] + [3] - [4] + [5d]) | \$ 85,221,718 |
| 7. Actual market value as of 12/31/2011 | \$ 76,965,532 |
| 8. Market value gain (loss) from 1/01/2011 to 12/31/2011 ([7] - [6]) | \$ (8,256,186) |
| 9. Adjustment to market value gain (loss) amounts | |

| | Plan Year Ending | Original Gain (Loss) | Fraction | Adjustment to Market Value |
|--|------------------------|----------------------------|----------|-------------------------------|
| a. | 12/31/08 | \$ (33,342,352) | 1/5 | \$ (6,668,470) |
| b. | 12/31/09 | \$ 6,271,013 | 2/5 | \$ 2,508,405 |
| c. | 12/31/10 | \$ 4,367,174 | 3/5 | \$ 2,620,304 |
| d. | 12/31/11 | \$ (8,256,186) | 4/5 | \$ <u>(6,604,949)</u> |
| e. | Total | | | \$ (8,144,710) |
| 10. Actuarial value as of 01/01/2012 ([7] - [9e]) | | | | \$ 85,110,242 |
| 11. Actuarial value as a percentage of market value | | | | 110.6% |
| 12. Present value of future contributions | | | | \$ 72,511,405 |
| 13. Total prospective assets ([10] + [12]) | | | | \$ 157,621,647 |



Liabilities

| | |
|---|-------------------|
| 1. Present Value of Future Benefits | |
| a. Retired employees and beneficiaries | \$ 84,283,128 |
| b. Vested terminated employees, deferred disabilities, and transfers | 1,179,323 |
| c. Active employees | <u>72,159,196</u> |
| 2. Total Prospective Liabilities | \$ 157,621,647 |



Employer Contributions for the Prior Plan Year

The following contributions for the prior plan year were made:

| Date | Amount |
|-------|----------------|
| 01/11 | \$ 422,162 |
| 02/11 | 417,025 |
| 03/11 | 416,037 |
| 04/11 | 412,939 |
| 05/11 | 414,555 |
| 06/11 | 416,198 |
| 07/11 | 474,080 |
| 08/11 | 334,341 |
| 09/11 | 338,515 |
| 10/11 | 330,353 |
| 11/11 | 328,088 |
| 12/11 | <u>564,812</u> |
| | \$ 4,869,105 |

Employee Contributions for the Prior Plan Year

The following contributions for the prior plan year, including service purchases, were made:

| Date | Amount |
|-------|----------------|
| 01/11 | \$ 117,267 |
| 02/11 | 115,840 |
| 03/11 | 115,566 |
| 04/11 | 114,705 |
| 05/11 | 115,154 |
| 06/11 | 115,611 |
| 07/11 | 171,354 |
| 08/11 | 120,847 |
| 09/11 | 122,355 |
| 10/11 | 119,405 |
| 11/11 | 118,586 |
| 12/11 | <u>204,149</u> |
| | \$ 1,550,839 |



Summary of Principal Plan Provisions



The following summary describes plan provisions assumed in calculating the cost of your pension plan.

General Information

1. Original Effective Date: July 1, 1977
2. Effective Date of Last Amendment: July 1, 2003
3. Plan Year: January 1 to December 31
4. Employer Fiscal Year: July 1 to June 30
5. Employer ID Number: 56-6000241

Eligibility

All sworn police officers are eligible to participate in the Plan.

Service

Service shall equal total years of service with the Employer. In addition, one month of service is credited for each twenty days of sick leave not taken. Service will not be interrupted by a period of service in the Armed Forces of the United States under which employment rights are granted.

Normal Retirement Date

Normal retirement date is the first day of the month coincident with or next following attainment of age fifty-five and five years of service. Unreduced retirement benefits are also available after thirty years of service.

Normal Retirement Benefit

The amount of annual benefit to be paid in monthly installments for life is equal to one and eighty-five one hundredths of one percent (1.85%) of average compensation for each year of continuous service.

Delayed Retirement

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement a benefit based on years of service and average compensation at his actual retirement date.

Average Compensation

The average of the highest forty-eight consecutive calendar months of W-2 compensation paid during his entire period of service. Annual salary shall not exceed the maximum qualified retirement plan compensation for the purpose of determining average compensation.



Accrued Benefit

The accrued benefit at any time prior to a participant's normal retirement date shall be his normal retirement benefit based on service and average compensation to the date of accrual.

Early Retirement Benefit

Upon the completion of fifteen years of service and the attainment of age fifty, a participant may elect to retire. He may receive a monthly benefit for life beginning at his normal retirement date equal to the benefit accrued at early retirement date. Payments may begin immediately, with the percentage of the benefit as follows:

| Attained Age | Percent Reduction |
|--------------|-------------------|
| 55 | 100% |
| 54 | 96% |
| 53 | 92% |
| 52 | 88% |
| 51 | 84% |
| 50 | 80% |

Disability Retirement Benefit

A participant who becomes totally and permanently disabled to perform the duties of a sworn police officer before his normal retirement date and has five years of service may retire and receive a disability retirement benefit calculated as the benefit he would have had at normal retirement age, but using no more than thirty years of service.

A participant who becomes totally and permanently disabled due to an on-the-job disability before his normal retirement date and has one year of service may retire and receive a disability retirement benefit calculated as the benefit he would have had at normal retirement age but using no more than thirty years of service.

Death Benefit

In the event of an active participant's death prior to his normal retirement date, the participant's beneficiary will receive a death benefit equal to the value of his accumulated contributions at the time of death.

In the event of an active participant's death after the attainment of age fifty and the completion of fifteen years of service or age fifty-five and the completion of five years of service, or twenty years of service but prior to actual retirement, a participant's beneficiary may elect to receive, in lieu of the above benefit, a benefit calculated as if the participant had retired on the day prior to death and elected a joint and full survivor benefit.

Severance Benefit

If a participant terminates his employment with the City before he is eligible for retirement benefits, he shall be entitled to the return of his contributions, without interest if the employee resigns with less than five years of service or with interest if the employee's service is terminated by the employer or the employee has greater than five years of service, as provided in the Plan. An employee with five or more years of service may elect to leave his contributions in the plan and receive a monthly benefit payable at age fifty-five equal to his accrued benefit at his date of termination.



In the event that the participant had at least fifteen years of creditable service at the date of termination, he may elect to receive his vested interest at age fifty. Such benefit will be reduced as described under Early Retirement Benefit.

Optional Methods of Settlement

All optional methods of settlement are actuarially equivalent to the straight life annuity. If a married participant does not elect the normal form of annuity or does not elect one of the optional methods of settlement described below, then the participant's retirement benefit shall automatically be paid under option [3] below. The options are:

1. Maximum Benefit—Monthly benefit to be paid during the participant's lifetime.
2. Joint and 100% Survivor (Plan option 2)—A reduced benefit to be paid during the participant's lifetime with the same reduced benefit to be continued to his spouse for her lifetime after his death.
3. Joint and 50% Survivor (Plan option 3)—A reduced benefit to be paid during the participant's lifetime with one-half the reduced benefit to be continued to his spouse for her lifetime after his death.
4. Social Security Leveling (Plan option 4)—For employees whose benefits commence prior to age sixty-two, an increased benefit payable to age sixty-two and a reduced benefit payable after age sixty-two such that the combined monthly benefit from the Plan and from primary Social Security benefits shall be as level as possible.
5. Joint and 100% Survivor Pop-Up (Plan option 6(a))—A reduced benefit to be paid during the participant's lifetime with the same reduced benefit to be continued to his spouse for her lifetime after his death. In the event the spouse predeceases the participant, the participant's monthly benefit would increase or "pop up" to the Maximum Benefit monthly amount.
6. Joint and 50% Survivor Pop-Up (Plan option 6(b))—A reduced benefit to be paid during the participant's lifetime with one-half the reduced benefit to be continued to his spouse for her lifetime after his death. In the event the spouse predeceases the participant, the participant's monthly benefit would increase or "pop up" to the Maximum Benefit monthly amount.

If a participant who is receiving a benefit under (1) or (4) above dies or both the participant and beneficiary die prior to the amount of monthly payments received equal the participant's Total contributions with interest, the balance of the employee contributions will be paid in a lump sum to a designated beneficiary or to the participant's estate.

Retiree Benefits

No cost-of-living adjustment was made to the benefits of retirees in 2011.

Employee Contributions

Each participating employee shall contribute to the fund six percent of his pay.

The above description is a summary only; for additional details, reference should be made to the formal plan document.



Supporting Data



Number of Costed Employees

| | 01/01/11 | 01/01/12 |
|---|------------|------------|
| 1. Active employees | 551 | 558 |
| 2. Vested terminations, deferred disabilities and transfers | 17 | 23 |
| 3. Retired employees and beneficiaries | <u>277</u> | <u>283</u> |
| 4. Total costed employees | 845 | 864 |

Age and Service Schedule - Costed Active Employees

| Age | Years of Employment | | | | | | | | Total |
|----------|---------------------|--------|----------|----------|----------|----------|----------|-----------|-------|
| | 0 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 and up | |
| Under 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 20 - 24 | 31 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 31 |
| 25 - 29 | 77 | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 101 |
| 30 - 34 | 36 | 51 | 13 | 0 | 0 | 0 | 0 | 0 | 100 |
| 35 - 39 | 16 | 25 | 28 | 15 | 0 | 0 | 0 | 0 | 84 |
| 40 - 44 | 10 | 19 | 13 | 47 | 20 | 0 | 0 | 0 | 109 |
| 45 - 49 | 3 | 5 | 5 | 29 | 34 | 11 | 0 | 0 | 87 |
| 50 - 54 | 4 | 2 | 0 | 12 | 11 | 10 | 2 | 0 | 41 |
| 55 - 59 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 2 |
| 60 - 64 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 3 |
| 65 - Up | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 177 | 128 | 59 | 105 | 65 | 22 | 2 | 0 | 558 |



Summary Statistics

1. As of January 1, 2012

| | Number of Costed Employees | Percentage of Total | Average Age at Hire | Average Past Service | Average Attained Age |
|----------------|----------------------------------|------------------------|------------------------|----------------------------|----------------------------|
| Males | 477 | 85.5% | 27.2 | 11.1 | 38.3 |
| Females | 81 | 14.5% | 25.8 | 9.6 | 35.4 |
| TOTAL | 558 | 100.0% | 27.0 | 10.9 | 37.9 |

2. As of January 1, 2011

| | Number of Costed Employees | Percentage of Total | Average Age at Hire | Average Past Service | Average Attained Age |
|----------------|----------------------------------|------------------------|------------------------|----------------------------|----------------------------|
| Males | 473 | 85.8% | 27.3 | 10.9 | 38.2 |
| Females | 78 | 14.2% | 25.9 | 9.6 | 33.5 |
| TOTAL | 551 | 100.0% | 27.1 | 10.7 | 37.8 |



Appendices



Development of Unfunded Accrued Liability

| | | |
|---|--------------------|----------------|
| 1. Unfunded accrued liability as of January 1, 2011 | | \$ 43,978,675 |
| 2. Increases in the obligation in [1] | | |
| a. Normal cost due January 1, 2011 | \$ 1,423,496 | |
| b. Interest at 7.50% on unfunded accrued liability and normal cost for one year | <u>3,405,163</u> | |
| c. Total Increases | | \$ 4,828,659 |
| 3. Decreases in the obligation in [1] | | |
| a. Employer contributions for year | \$ 4,869,105 | |
| b. Interest at 7.50 % on Employer contributions from date paid to December 31, 2011 | 196,881 | |
| c. Actuarial gains (losses) | <u>(7,672,441)</u> | |
| d. Total Decreases | | \$ (2,606,455) |
| 4. Preliminary unfunded accrued liability as of January 1, 2012 | | \$ 51,413,789 |
| 5. Adjustment for salary scale change | | \$ (6,199,302) |
| 6. Adjustment for change in withdrawal and retirement rates | | \$ 2,442,551 |
| 7. Adjusted unfunded accrued liability as of January 1, 2012 | | \$ 47,657,038 |
| 8. Valuation assets as of January 1, 2012 | | \$ 85,110,242 |
| 9. Accrued liability as of January 1, 2012 | | \$ 132,767,280 |



Winston-Salem Retirement Plan for Sworn Police Officers

Annual Required Contribution (ARC)

| Fiscal Year Beginning | 07/01/2013 |
|---|---------------------|
| 1. Normal Cost | \$ 1,482,050 |
| 2. Amortization payment of unfunded accrued liability over 25 years | <u>\$ 3,977,065</u> |
| 3. Preliminary Annual Required Contribution ([1] + [2]) | \$ 5,459,115 |
| 4. Eighteen (18) months of interest | <u>\$ 625,526</u> |
| 5. Annual Required Contribution (ARC) ([3] + [4]) | \$ 6,084,641 |
| 6. Annualized payroll of costed employees | \$ 25,654,625 |
| 7. ARC as a percentage of payroll ([5] / [6]) | 23.7% |

Statement of Funded Status

| Plan | Accrued Liability¹ | Valuation Assets | Unfunded Accrued Liability (Surplus) |
|--|--------------------------------------|-------------------------|---|
| Winston-Salem Retirement Plan for Sworn Police Officers | \$ 132,767,280 | \$ 85,110,242 | \$ 47,657,038 |
| Winston-Salem Sworn Police Officers Separation Allowance | <u>13,158,551</u> | <u>8,339,005</u> | <u>4,819,546</u> |
| Total | \$ 145,925,831 | \$ 93,449,247 | \$ 52,476,584 |

¹ Based on Projected Unit Credit funding method.



Information for Auditors

The Governmental Accounting Standards Board (GASB) has issued Statement No. 25—Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27—Accounting for Pensions by State and Local Governmental Employers. Actuarial information pertinent to these items is given below:

1. Benefit information Date

The Plan was last valued as of January 1, 2012.

2. Employees Included in the Valuation

The valuation was performed with employee data supplied to us. We did not audit the data, we believe that all plan members were included in this data. All eligible employees on the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan as indicated by the employer data are also included.

3. Actuarial Cost Method

The actuarial cost method or funding method used to value the Plan is called the Projected Unit Credit Method.

4. Basis of Valuation of Plan Assets

Valuation assets have been determined by using a 5-year smoothed market value method without phase-in as described in Revenue Ruling 2000-40, Section 3.15. For the 2007 valuation, the asset value was reset back to market value. Assets are placed in an irrevocable trust under a Master Trust agreement with US Bank.

No discounted deferred liability to provide for the repayment of the certificates of participation has been reflected.

The financial information used in this valuation was not audited by Aon Hewitt.

5. Interest Rate

The interest rate used to value plan liabilities for determining contribution levels is 7.5%



6. Annual Required Contribution

The Annual Required Contribution (ARC) to be made to the plan for the fiscal year beginning July 1, 2013 is \$6,084,641 (23.7% of payroll). The ARC is composed of the normal cost plus a twenty-five year, level dollar amortization of the unfunded accrued liability as of January 1, 2012 (see above).

7. Pension Cost

The annual pension cost equals the ARC if the Net Pension Obligation is considered to be \$0 at June 30, 2012.

8. Changes in the Past Year

Below are changes in significant items affecting the actuarial present values:

The mortality table was updated from the RP-2000 IRS PPA @ 2011 Combined Healthy Tables for Males and Females (Small Plan Mortality) to the RP-2000 IRS PPA @ 2012 Combined Healthy Tables for Males and Females (Small Plan Mortality).

The salary scale assumption was revised from 5.5% for all years to 1.0% in 2012, 1.5% in 2013, 2.0% in each of the years 2014 – 2016, 2.5% in 2017, 3.0% in 2018, and 5.0% thereafter.

Termination rates have been updated to vary by age and service for service between 0 and 5 years.

Retirement rates have been updated to include rates between ages 50 and 55 and service less than 29 years.

The Annual Required Contribution has been adjusted to include 18 months of interest.

| | Rate as % of Costed Payroll | Amount |
|--|--------------------------------|------------------|
| Expected Annual Required Contribution as of January 1, 2012 based on 2011 assumptions and Data | 22.9% | \$5,905,167 |
| Changes due to: | | |
| Adjustment to Include 18 months of interest | 2.6% | \$676,636 |
| Update to 2012 basis (data & mortality) | 0.4% | \$90,291 |
| Salary scale change | (3.9%) | (\$1,010,024) |
| Change in Termination rates | 0.3% | \$72,119 |
| Change in Retirement rates | <u>1.4%</u> | <u>\$350,452</u> |
| Net Change | 0.8% | \$179,474 |
| Annual Required Contribution as of January 1, 2012 | 23.7% | \$6,084,641 |