

Board of Commissioners
Washtenaw County Retirement Commission:

We have examined the statement of net assets available for system benefits of the Washtenaw County Employees' Retirement System as of December 31, 1985 and 1984, and the related statement of changes in net assets available for system benefits for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Washtenaw County Employees' Retirement System at December 31, 1985 and 1984, and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Detroit, Michigan
June 24, 1986

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF NET ASSETS AVAILABLE FOR SYSTEM BENEFITS

December 31, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Assets:		
Investments, at market (Note 4):		
Corporate bonds and notes	\$ 4,453,269	\$ 4,076,430
Common stocks	17,090,818	15,432,781
United States Government securities	13,317,967	10,200,657
Money market fund	7,442,335	1,559,306
Guaranteed investment contract	800,000	800,000
Mortgages	<u>279,499</u>	<u>265,915</u>
Total investments	43,383,888	32,335,089
Cash	55,450	157,292
Accrued interest and dividends	629,051	603,412
Due from other funds	98,687	542,413
Reimbursements receivable	<u>23,809</u>	<u>-</u>
Total assets	44,190,885	33,638,206
Liabilities, accounts payable and accrued expenses	<u>51,437</u>	<u>18,949</u>
Net assets available for benefits	<u>\$44,139,448</u>	<u>\$33,619,257</u>
Fund balance:		
Reserved for:		
Employee contributions	\$ 7,023,274	\$ 6,673,994
Pension	30,479,923	22,349,843
Retirement	<u>6,636,251</u>	<u>4,595,420</u>
Total fund balance	<u>\$44,139,448</u>	<u>\$33,619,257</u>

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

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR SYSTEM BENEFITS
for the years ended December 31, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Investment income:		
Net appreciation in fair value of investments (Note 4)	\$ 6,170,249	\$ 900,962
Interest	2,200,917	1,916,360
Dividends	<u>571,928</u>	<u>491,341</u>
	8,943,094	3,308,663
Less investment expenses	<u>117,106</u>	<u>107,098</u>
	<u>8,825,988</u>	<u>3,201,565</u>
Contributions:		
Employer	2,005,265	2,133,548
Employees	<u>963,340</u>	<u>1,025,986</u>
	<u>2,968,605</u>	<u>3,159,534</u>
Total additions	<u>11,794,593</u>	<u>6,361,099</u>
Participants' benefit payments	586,177	510,073
Refunds to terminated employees	<u>688,225</u>	<u>836,039</u>
Total deductions	<u>1,274,402</u>	<u>1,346,112</u>
Net increase	10,520,191	5,014,987
Net assets available for system benefits:		
Beginning of year	<u>33,619,257</u>	<u>28,604,270</u>
End of year	<u>\$44,139,448</u>	<u>\$33,619,257</u>

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

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS

1. Plan Description:

The following brief description of the plan is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

General

The Retirement System is a defined benefit pension plan covering substantially all full-time employees of Washtenaw County. The System is exempted from the requirements of Title 1 of the Employment Retirement Income Security Act of 1974 and as such is not subject to the reporting and disclosure requirements of the Act.

Pension Benefits

In general, employees with eight or more years of service and having attained the age of 60 years, or certain employees with 25 years or more of service and having attained the age of 50 years are entitled to annual pension benefits upon reaching the applicable retirement age. The benefits are equal to the employees' years of credited service multiplied by the sum of:

- . 1.2 percent of the first \$4,200 of their final five-year average annual compensation for each year of service, and
- . 1.7 percent of the portion, if any, of their final average compensation in excess of \$4,200.

Sheriff Department

2.0 percent of their final average compensation of which the maximum County financed portion is limited to 75 percent of final average compensation.

Employees may elect to receive their pension benefits in the form of a straight life annuity or in one of four options which include a survivor annuity. If employees terminate before rendering eight years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the County's contributions.

Continued

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, Continued

1. Plan Description, continued:

Death and Disability Benefits

If an active employee dies, a death benefit may be payable to the employee's beneficiary. Active employees with 10 or more years of service who become totally disabled receive annual disability benefits.

2. Significant Accounting Policies:

Method of Accounting

The fund utilizes the accrual basis method of accounting which recognizes revenues as earned and expenses as incurred.

Valuation of Investments

If available, quoted market prices are used to value investments. The amounts shown in Note 4 for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair value. In general, however, mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The guaranteed investment contract is valued at contract value.

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries; (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the plan are based on employees' compensation during five of their last ten years of credited service. Benefits payable under all circumstances (retirement, death, disability and termination of employment) are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

Continued

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, Continued

2. Significant Accounting Policies, continued:

The actuarial present value of accumulated plan benefits is determined by the Retirement System's Actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations were (a) life expectancy of participants (the 1971 Group Annuity Mortality Table was used); (b) retirement age assumptions (the assumed average retirement age was 60), and (c) investment return. The 1984 valuation assumed an average rate of return of 6.5 percent. The foregoing actuarial assumptions are based on the presumption that the plan will continue. Were the plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Administrative Expense

In accordance with County policies, the administrative costs associated with the retirement fund, other than custodian fees, are paid from the Fringe Benefit Revolving Fund and are not reflected in the Retirement System's financial statements.

Reporting Entity

These financial statements represent the financial condition of a component unit of Washtenaw County and are an integral part of that reporting entity.

Basis of Presentation

Certain 1984 amounts have been reclassified to conform with classifications adopted in 1985.

3. Funding Policy:

As a condition of participation, employees are required to contribute 3 percent of the first \$4,200 of their gross annual salary and 5 percent thereafter to the Retirement System. Present employees' accumulated contributions at December 31, 1985 and 1984, were \$7,023,274 and \$6,673,994, respectively, including interest credited at an interest rate of 6 percent in 1985 and 5.25 percent in 1984 compounded annually. The County's funding policy utilizing the entry age normal method is to make annual contributions to the Retirement System in amounts that are estimated using a constant percentage of employees' compensation each year such that, when combined with employees' contributions, all employees' benefits will be provided for by the time they retire. The rate in effect for general employees during 1985 and 1984 was approximately 8.41 percent and 7.35 percent, respectively. The rate in effect for sheriffs during 1985 and 1984 was approximately 16.49 percent and 17.53 percent, respectively. In 1984, the County began funding a health insurance reserve for retirees.

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT

NOTES TO FINANCIAL STATEMENT

4. Investments:

The Retirement System's investments are held in a trust fund (Bank of Detroit). The following investments as determined and certified to represent 5 percent or more of the Retirement System's investments are identified.

Investments at fair value as determined
quoted market price:
Corporate bonds and notes:
Dow Chemical Company, par value \$1,500,000,
11.75 percent, due January 5, 1995
Tenneco Inc., 1984: par value \$1,000,000,
13.70 percent maturing September
1983: par value \$1,000,000 and
13.70 percent and 14.50 percent,
September 1, 1992 and June 1, 1995
Other

Common stock

United States Government securities:
Treasury bonds, 11.75 percent, due
February 15, 2001
Treasury bonds, 10.375 percent, due
May 15, 1995
Treasury notes, Series B, 13.75 percent,
due May 15, 1992
Federal National Mortgage Association
debenture, 10.5 percent, due June 1, 1995
Federal Home Loan Banks, consolidated
bond, 11.70 percent, due July 26, 1995
Other
Money Market Fund

Investments at estimated fair value:
Guaranteed investment contract
Mortgages

Continued

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, Continued

4. Investments, continued:

During 1985 and 1984, the plan's investments appreciated as follows:

	1984	
	Realized Gain (Loss)	Net Appreciation (Depreciation)
Investments at fair value as determined by quoted market price:		
Common stock	\$819,061	\$399,976
Bonds: Corporate and U. S. Government securities	178,12,193	493,783
	997,18,254	893,759
Investments at estimated fair value:		
Mortgages	- 203	7,203
	\$997,18,457	\$900,962

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WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS, Contin

5. Fund Balance Reserves:

The following is an analysis of changes in fund res
December 31, 1985 and 1984:

	1984		Total Reserve
	Reserve Employ Contribut	Retirement Reserve Fund	
Balance, beginning of year	\$6,673,958	\$4,030,280	\$28,604,270
Additions:			
Employees' contributions	963,3		1,025,986
Employer's contributions	48		2,133,548
Investment income	345,939	625,955	3,308,663
Annuities awarded	(271,811)	379,465	-
	7,711,434	5,035,700	35,072,467
Deductions:			
Participants' benefit payments		(440,280)	(440,280)
Refunds to terminated employees	(688,2		(836,039)
Investment expenses	91)		(176,891)
	\$7,023,243	\$4,595,420	\$33,619,257
Balance, end of year	\$7,023,243	\$4,595,420	\$33,619,257

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WASHTENAW COUNTY
 EMPLOYEES' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS, Continued

6. Tax Status:

A determination of the tax status of the System has not been sought from the Internal Revenue Service. It is expected that the System would qualify under the Internal Revenue Code and, therefore, not be subject to tax under present income tax law.

7. Retirement System Benefits:

Accumulated plan benefits and plan net assets for the Retirement System as of December 31, 1984, the date of the most recent actuarial valuation are:

Actuarial present value of projected benefits payable to current retirants and beneficiaries	\$ 5,189,816
Actuarial present value of projected benefits payable to terminated vested participants	557,222
Actuarial present value of projected benefits for active employees	<u>28,503,961</u>
Total actuarial present value of credited projected benefits	<u>\$34,250,999</u>
Net assets available for plan benefits, December 31, 1984	<u>\$33,619,257</u>
Assumed average rate of return	<u>6.5%</u>