

**WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

Financial Statements

**For The Year Ended
December 31, 1997**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 6, 1998

To the Board of Commissioners
Washtenaw County Employees' Retirement Commission
Ann Arbor, Michigan

We have audited the accompanying combining statement of plan net assets of the *Washtenaw County Employees' Retirement System* as of December 31, 1997, and the related combining statement of changes in plan net assets for the year 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Employees' Retirement System pension trust fund and are not intended to present fairly the financial position and results of operations of Washtenaw County, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the information regarding the System's net assets held in trust for benefits at December 31, 1997, and changes therein for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Rehmann Robson, P.C.

FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM
Combining Statement of Plan Net Assets
December 31, 1997
(With Comparative Totals as of December 31, 1996)

	1997		Total	1996
	Pension	Health		
Assets				
Investments, at fair value:				
Common stocks	\$90,861,352	\$7,910,077	\$98,771,429	\$96,295,756
United States government securities	50,627,597	4,407,464	55,035,061	34,646,626
Corporate bonds and notes	10,373,321	903,066	11,276,387	8,359,474
Short-term investments	3,842,725	334,534	4,177,259	4,727,939
Total investments	155,704,995	13,555,141	169,260,136	144,029,795
Cash	-	-	-	220,490
Contributions receivable	-	-	-	1,351
Accrued interest and dividends	780,593	67,956	848,549	894,595
Due from other Washtenaw County funds	4,641	-	4,641	41
Total assets	156,490,229	13,623,097	170,113,326	145,146,272
Liabilities				
Accounts payable and accrued expenses	3,815	-	3,815	-
Due to other Washtenaw County funds	653	-	653	-
Total liabilities	4,468	-	4,468	-
Net assets held in trust for pension and health benefits (a schedule of funding progress is presented on Page 9)				
	\$156,485,761	\$13,623,097	\$170,108,858	\$145,146,272

See accompanying notes

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM
Combining Statement of Changes in Plan Net Assets
For the Year Ended December 31, 1997
(With Comparative Totals for the Year Ended December 31, 1996)

	1997			1996
	Pension	Health	Total	
Additions				
Investment income:				
Net realized and unrealized appreciation in fair value of investments	\$22,591,960	\$1,975,599	\$24,567,559	\$12,690,828
Interest and dividends	5,740,593	590,486	6,331,079	7,238,444
Total investment income	28,332,553	2,566,085	30,898,638	19,929,272
Less investment expense	607,246	62,462	669,708	576,053
Net investment income	27,725,307	2,503,623	30,228,930	19,353,219
Contributions:				
Washtenaw County	-	-	-	1,115,303
Participants	991,963	-	991,963	835,845
Total contributions	991,963	-	991,963	1,951,148
Other additions - eligible transfers from defined contribution plan	3,276,901	-	3,276,901	203,014
Total additions	31,994,171	2,503,623	34,497,794	21,507,381
Deductions				
Participant benefits	7,567,838	1,742,999	9,310,837	7,075,437
Administrative expenses	168,559	-	168,559	189,226
Participant refunds	55,812	-	55,812	23,223
Total deductions	7,792,209	1,742,999	9,535,208	7,287,886
Net additions to net assets held in trust	24,201,962	760,624	24,962,586	14,219,495
Net assets held in trust for benefits, beginning of year	132,283,799	12,862,473	145,146,272	130,926,777
Net assets held in trust for benefits, end of year	\$156,485,761	\$13,623,097	\$170,108,858	\$145,146,272

See accompanying notes

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

1. PLAN DESCRIPTION

The Washtenaw County Employees' Retirement System (the "System") is a single-employer defined benefit contributory retirement plan which provides pension, death, disability and postemployment healthcare benefits covering certain full-time employees of Washtenaw County (the "County") hired prior to January 1, 1989. Employees hired on or after January 1, 1989, are covered by a separate defined contribution plan -- i.e., the Washtenaw County Money Purchase Pension Plan (MPPP).

Retirees and beneficiaries are eligible for postemployment healthcare benefits if they are receiving a pension from the System. Members are not required to contribute for postemployment healthcare benefits.

System membership consisted of the following at December 31, 1997:

Retirees and beneficiaries currently receiving benefits	544
Terminated employees entitled to but not yet receiving benefits	21
Vested active participants	225
Non-vested active participants	2

(Note: During 1997, an early retirement program was offered by the County which allowed former members, who had opted to withdraw from the System and join the MPPP when it was first established, to re-enroll in the System by transferring their MPPP account balances and restoring any distributions taken from the System at the time of withdrawal. Approximately 55 former System members exercised this re-enrollment option.)

Eligible members are required to contribute between 5% to 10% of their annual compensation to the System for pension benefits subject to applicable collective bargaining agreement and/or the unit to which the member is assigned. The County contributes such additional amounts, as necessary based on an actuarially determination, to provide assets sufficient to pay for member benefits including postemployment healthcare. The County's contribution for the year ended December 31, 1997, represents 0% of the annual covered payroll.

The System is administered by the County and, accordingly, it is included as a pension trust fund in the County's general purpose financial statements. Plan amendments are under the authority of County Ordinances. Changes in required contributions are subject to collective bargaining agreements and approval by the Washtenaw County Board of Commissioners.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Governmental Accounting Standards Board (GASB) has issued Statements 25, 26 and 27 which establish the financial reporting framework for pension plans, including fair value accounting for investments, recognition of unrealized investment gains and losses, amortization of unfunded actuarial liabilities over a period of 40 years or less, and certain additional disclosures regarding postemployment healthcare benefits. These Statements were adopted by the System in 1997.

Valuation of Investments and Income Recognition - The System's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates market value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amounts which reasonably approximates market value.

Administration - Administrative costs are financed through the System's investment earnings.

3. INVESTMENTS

The System's investments are primarily held in a bank-administered trust fund, except for a certain portion as described below which is held and administered by an independent investment management company. Following is a summary of the System's investments as of December 31, 1997:

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Cost</u>
Investments at fair value, as determined by quoted market price:		
Common stocks	\$ 98,771,429	\$ 78,272,722
U.S. government securities	55,035,061	50,766,614
Corporate bonds and notes	11,276,387	11,294,001
Money market funds:		
Short-term investment fund for employee benefit plans	1,434,075	1,434,075
Other	<u>2,743,184</u>	<u>2,748,771</u>
 Total investments	 <u>\$169,260,136</u>	 <u>\$144,516,183</u>

At December 31, 1997, the investments with the aforementioned management company totaled \$10,606,855 at fair value and \$11,075,865 at cost.

Total realized and unrealized gains and losses for the year ended December 31, 1997, are as follows:

	<u>Realized Gain (Loss)</u>	<u>Unrealized Gain (Loss)</u>	<u>Net Appreciation (Depreciation)</u>
Investments, recorded at fair value as determined by quoted market price:			
Common stocks	\$20,476,870	\$1,757,583	\$22,234,453
Corporate bonds and U.S. government securities	<u>(219,048)</u>	<u>2,552,154</u>	<u>2,333,106</u>
 Total	 <u>\$20,257,822</u>	 <u>\$4,309,737</u>	 <u>\$24,567,559</u>

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Concluded)

Investments are categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the System's name. At December 31, 1997, all of the System's investments are classified in Category 3, except for investments in money market funds which are not required to be categorized.

4. ANNUAL REQUIRED CONTRIBUTION

The System's annual retirement benefits cost and net retirement benefits obligation for the year ended December 31, 1997, were as follows:

Annual required contribution / retirement benefit cost	\$ -
Contribution made	<u>-</u>
Increase (decrease) in net retirement benefit obligation	-
Net retirement benefit obligation, beginning of year	<u>-</u>
Net retirement benefit obligation, end of year	<u><u>\$ -</u></u>

The annual required contribution for 1997 was determined as part of an actuarial valuation of the System as of December 31, 1995, using the aggregate cost actuarial funding method. The actuarial assumptions included: (a) a rate of return on investments of 8.0% per year compounded annually; (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.5% to 5.5% per year, depending on age and service, attributable to seniority/merit; and (d) the assumptions that pension benefits will not increase after retirement and health insurance premiums will increase 5.0% per year.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

4. ANNUAL REQUIRED CONTRIBUTION (Concluded)

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Retirement Benefit Cost (ARBC)</u>	<u>Percentage of ARBC Contributed</u>	<u>Net Retirement Benefit Obligation</u>
12/31/95	\$435,677	108.1%	\$ -
12/31/96	\$146,136	103.5%	\$ -
12/31/97	\$ -	n/a	\$ -

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

**SUPPLEMENTARY
INFORMATION**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
1991	\$74,102,423	\$56,474,021	(\$17,628,402)	131.2%	\$16,233,676	-108.6%
1992	81,053,493	65,473,796	(15,579,697)	123.8%	15,117,795	-103.1%
1993	88,908,826	74,524,195	(14,384,631)	119.3%	13,684,907	-105.1%
1994	94,239,101	80,448,400	(13,790,701)	117.1%	11,931,051	-115.6%
1995	101,442,954	86,726,240	(14,716,714)	117.0%	12,044,411	-122.2%
1996	108,627,450	95,561,046	(13,066,404)	113.7%	11,600,274	-112.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
1992	\$86,558	\$112,810	130.3%
1993	149,872	148,851	99.3%
1994	537,762	546,222	101.6%
1995	435,677	471,022	108.1%
1996	146,136	151,280	103.5%
1997	-	-	-