

**WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

Financial Statements

**For The Year Ended
December 31, 1998**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

March 5, 1999
except for Note 5 which is dated April 26, 1999

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, 1998, 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, 1998, and changes therein for the year then ended in conformity with generally accepted accounting principles.

The historical pension information and the year 2000 information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. In addition, we do not provide assurance that *Washtenaw County Employees' Retirement System* is or will become year 2000 compliant, that *Washtenaw County Employees' Retirement System's* year 2000 remediation efforts will be successful in whole or part, or that parties with which *Washtenaw County Employees' Retirement System* does business are or will become year 2000 compliant.

Rehmann Lohman, P.C.

FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM
Combining Statement of Plan Net Assets
December 31, 1998
(With Comparative Totals as of December 31, 1997)

| | 1998 | | | 1997 |
|--|------------------------------|-----------------------------|------------------------------|------------------------------|
| | Pension | Health | Total | |
| Assets | | | | |
| Investments, at fair value: | | | | |
| Common stocks | \$ 94,149,345 | \$ 7,201,306 | \$ 101,350,651 | \$ 98,771,429 |
| United States government securities | 58,602,452 | 4,482,391 | 63,084,843 | 55,035,061 |
| Corporate bonds and notes | 10,505,279 | 803,529 | 11,308,808 | 11,276,387 |
| Short-term investments | 4,954,026 | 378,924 | 5,332,950 | 4,177,259 |
| Total investments | 168,211,102 | 12,866,150 | 181,077,252 | 169,260,136 |
| Accrued interest and dividends | 1,002,748 | 76,698 | 1,079,446 | 848,549 |
| Due from other Washtenaw County funds | - | - | - | 4,641 |
| Total assets | 169,213,850 | 12,942,848 | 182,156,698 | 170,113,326 |
| Liabilities | | | | |
| Accounts payable and accrued expenses | - | 112 | 112 | 3,815 |
| Due to other Washtenaw County funds | - | - | - | 653 |
| Total liabilities | - | 112 | 112 | 4,468 |
| Net assets held in trust for pension and health benefits (a schedule of funding progress is presented on Page 11) | <u>\$ 169,213,850</u> | <u>\$ 12,942,736</u> | <u>\$ 182,156,586</u> | <u>\$ 170,108,858</u> |

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

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM
Combining Statement of Changes in Plan Net Assets
For the Year Ended December 31, 1998
(With Comparative Totals for the Year Ended December 31, 1997)

| | 1998 | | | 1997 |
|--|------------------------------|-----------------------------|------------------------------|------------------------------|
| | Pension | Health | Total | |
| Additions | | | | |
| Investment income: | | | | |
| Net realized and unrealized appreciation in fair value of investments | \$ 12,013,921 | \$ 1,169,245 | \$ 13,183,166 | \$ 24,567,559 |
| Interest and dividends | 6,815,043 | 650,240 | 7,465,283 | 6,331,079 |
| Total investment income | 18,828,964 | 1,819,485 | 20,648,449 | 30,898,638 |
| Less investment expense | 791,683 | 75,536 | 867,219 | 669,708 |
| Net investment income | 18,037,281 | 1,743,949 | 19,781,230 | 30,228,930 |
| Contributions - Participants | 583,602 | - | 583,602 | 991,963 |
| Other additions - eligible transfers from defined contribution plan | 3,324,458 | - | 3,324,458 | 3,276,901 |
| Total additions | 21,945,341 | 1,743,949 | 23,689,290 | 34,497,794 |
| Deductions | | | | |
| Participant benefits | 8,951,145 | 2,420,053 | 11,371,198 | 9,310,837 |
| Administrative expenses | 234,464 | - | 234,464 | 168,559 |
| Participant refunds | 31,643 | 4,257 | 35,900 | 55,812 |
| Total deductions | 9,217,252 | 2,424,310 | 11,641,562 | 9,535,208 |
| Net additions to net assets held in trust | 12,728,089 | (680,361) | 12,047,728 | 24,962,586 |
| Net assets held in trust for benefits, beginning of year | 156,485,761 | 13,623,097 | 170,108,858 | 145,146,272 |
| Net assets held in trust for benefits, end of year | <u>\$ 169,213,850</u> | <u>\$ 12,942,736</u> | <u>\$ 182,156,586</u> | <u>\$ 170,108,858</u> |

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

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. These benefits will be paid by the Washtenaw County Voluntary Employee Benefit Association (VEBA) in the event that System healthcare net assets are exhausted.

System membership consisted of the following at December 31, 1998:

| | |
|---|-----|
| Retirees and beneficiaries currently receiving benefits | 525 |
| Terminated employees entitled to but not yet receiving benefits | 28 |
| Vested active participants | 226 |

During 1998, a re-entry 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 56 former System members exercised this re-enrollment option in 1998.

Eligible members are required to contribute 5% of their annual compensation to the System for pension and healthcare benefits. Effective January 1, 1997, the County has the right to direct those employee contributions to either the System or the VEBA. The County contributes such additional amounts, as necessary based on an actuarial determination, to provide assets sufficient to pay for member benefits including postemployment healthcare. The County's contribution for the year ended December 31, 1998, represents 0% of the annual covered payroll.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

1. PLAN DESCRIPTION (Concluded)

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.

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.

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.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

3. INVESTMENTS

The System's investments are primarily held in a bank-administered trust fund. Following is a summary of the System's investments as of December 31, 1998:

| | <u>Fair Value</u> | <u>Cost</u> |
|--|------------------------------|------------------------------|
| Investments at fair value, as determined by quoted market price: | | |
| Common stocks | \$ 101,350,651 | \$ 82,287,924 |
| U.S. government securities | 63,084,843 | 57,692,078 |
| Corporate bonds and notes | 11,308,808 | 11,378,531 |
| Money market funds: | | |
| Short-term investment fund for employee benefit plans | 3,104,639 | 3,104,639 |
| Other | <u>2,228,311</u> | <u>2,182,595</u> |
| Total investments | <u>\$ 181,077,252</u> | <u>\$ 156,645,767</u> |

Total realized and unrealized gains and losses for the year ended December 31, 1998, 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 | \$ 13,851,243 | \$ (1,384,676) | \$ 12,466,567 |
| Corporate bonds and U.S. government securities | <u>(355,610)</u> | <u>1,072,209</u> | <u>716,599</u> |
| Total | <u>\$ 13,495,633</u> | <u>\$ (312,467)</u> | <u>\$ 13,183,166</u> |

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of System investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in prior years and the current year.

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, 1998, 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 County's annual retirement benefits cost and net retirement benefits obligation for the year ended December 31, 1998, 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 1998 was determined as part of an actuarial valuation of the System as of December 31, 1996, 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 0.0% to 6.0% 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. Aggregate costs under the aforementioned funding method are amortized over the remaining working lifetimes of covered employees.

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>County's Annual Retirement Benefit Cost (ARBC)</u> | <u>Percentage of ARBC Contributed</u> | <u>Net Retirement Benefit Obligation</u> |
|-------------------|---|---|--|
| 12/31/96 | \$ 146,136 | 103.5% | \$ - |
| 12/31/97 | \$ - | n/a | \$ - |
| 12/31/98 | \$ - | n/a | \$ - |

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

5. YEAR 2000 COMPLIANCE

On March 29, 1999, the Governmental Accounting Standards Board issued Technical Bulletin (TB) 99-1, *Disclosures about Year 2000 Issues – an amendment of Technical Bulletin 98-1*. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB 99-1 is permitted. The Employees' Retirement System has elected to apply TB 99-1 retroactively for its 1998 financial statements, and to present the year 2000 disclosures as required supplementary information on Page 10.

**GASB REQUIRED SUPPLEMENTARY
INFORMATION**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

GASB Required Supplementary Information

Year 2000 Information

Pursuant to Governmental Accounting Standards Board Technical Bulletin 99-1, Washtenaw County, the reporting entity that includes the Employees' Retirement System, has made the required disclosures regarding its actions to be Year 2000 compliant with respect to relevant technology systems. Accordingly, refer to the County's Comprehensive Annual Financial Report for the year ended December 31, 1998, for this disclosure, as the Employees' Retirement System uses the County's technology systems.

**SUPPLEMENTARY
INFORMATION**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date December31 | (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% |
| 1997 | 120,280,457 | 117,942,286 | (2,338,171) | 102.0% | 10,637,600 | -22.0% |

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 | - | - | - |
| 1998 | - | - | - |