

**WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

Financial Statements

**For The Year Ended
December 31, 2000**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
 FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000	
Combining Statement of Plan Net Assets	2
Combining Statement of Changes in Plan Net Assets.....	3
Notes to Financial Statements	4-8
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	9
Schedule of Employer Contributions	9

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INDEPENDENT AUDITORS' REPORT

February 21, 2001

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, 2000, 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, 2000, and changes therein for the year then ended in conformity with generally accepted accounting principles.

The required supplemental information in the table of contents is not a required part of the general purpose 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.

Rehmann Robson, P.C.

FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM
Combining Statement of Plan Net Assets
December 31, 2000
(With Comparative Totals as of December 31, 1999)

	2000			1999
	Pension	Health	Total	
Assets				
Investments, at fair value:				
Common stocks	\$ 106,530,936	\$ 6,956,097	\$ 113,487,033	\$ 118,060,850
United States government securities	50,371,212	3,289,064	53,660,276	53,228,572
Corporate bonds and notes	11,359,775	741,754	12,101,529	10,722,433
Short-term investments	5,438,248	355,099	5,793,347	7,431,935
Total investments	173,700,171	11,342,014	185,042,185	189,443,790
Accrued interest and dividends	625,300	40,830	666,130	722,057
Contributions receivable	58,406	-	58,406	-
Due from other Washtenaw County funds	-	-	-	336,070
Total assets	174,383,877	11,382,844	185,766,721	190,501,917
Liabilities				
Accounts payable and accrued expenses	129,812	-	129,812	15,967
Due to other Washtenaw County funds	462	-	462	7,900
Total liabilities	130,274	-	130,274	23,867
Net assets held in trust for pension and health benefits (a schedule of funding progress is presented on Page 9)	\$ 174,250,025	\$ 11,386,422	\$ 185,636,447	\$ 190,478,050

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, 2000
(With Comparative Totals for the Year Ended December 31, 1999)

	2000			1999
	Pension	Health	Total	
Additions				
Investment income:				
<i>From investing activities</i>				
Net appreciation (depreciation) in fair value of investments	\$ (3,734,983)	\$ 613,218	\$ (3,121,765)	\$ 10,267,211
Interest and dividends	7,005,814	522,352	7,528,166	6,995,827
Total investment income	3,270,831	1,135,570	4,406,401	17,263,038
Investment management fees	(932,399)	(69,185)	(1,001,584)	(804,956)
Net income from investing activities	2,338,432	1,066,385	3,404,817	16,458,082
<i>From securities lending activities</i>				
Securities lending income	56,477	-	56,477	-
Securities lending fees	(22,588)	-	(22,588)	-
Net income from securities lending activities	33,889	-	33,889	-
Total net investment income	2,372,321	1,066,385	3,438,706	16,458,082
Contributions:				
Washtenaw County	1,513,759	-	1,513,759	1,038,243
Participants	772,396	-	772,396	644,707
Total contributions	2,286,155	-	2,286,155	1,682,950
Other additions - eligible transfers from defined contribution plan	1,792,822	-	1,792,822	1,696,997
Total additions	6,451,298	1,066,385	7,517,683	19,838,029
Deductions				
Participant benefits	9,901,674	2,165,676	12,067,350	11,119,402
Transfers to defined contribution plan	-	-	-	111,582
Administrative expenses	290,728	-	290,728	205,990
Participant refunds	1,208	-	1,208	79,591
Total deductions	10,193,610	2,165,676	12,359,286	11,516,565
Net additions (deductions) to net assets available for benefits	(3,742,312)	(1,099,291)	(4,841,603)	8,321,464
Net assets held in trust for benefits, beginning of year	177,992,337	12,485,713	190,478,050	182,156,586
Net assets held in trust for benefits, end of year	\$ 174,250,025	\$ 11,386,422	\$ 185,636,447	\$ 190,478,050

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. The Washtenaw County Voluntary Employee Benefit Association (VEBA) will pay these benefits in the event that System healthcare net assets are exhausted.

System membership consisted of the following at December 31, 2000:

Retirees and beneficiaries currently receiving benefits	554
Terminated employees entitled to but not yet receiving benefits	27
Vested active participants	223

Beginning in 1998, a re-entry program was implemented by the System 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. Thirty former System members exercised this re-enrollment option in 2000.

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, 2000, represents 18.70% of the annual covered payroll.

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

The System is administered by the County; 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 fair 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 fair value.

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

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

3. INVESTMENTS AND SECURITY LENDING

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, 2000:

Investments at fair value, as determined	
by quoted market price:	
Common stocks:	
Not on securities loan	\$ 110,381,943
On securities loan	3,105,090
U.S. government securities:	
Not on securities loan	35,237,531
On securities loan	18,422,745
Corporate bonds and notes	12,101,529
Money market funds	<u>5,793,347</u>
Total investments	<u>\$185,042,185</u>

Total realized and unrealized gains and losses for the year ended December 31, 2000, are as follows:

	Realized Gain <u>(Loss)</u>	Unrealized Gain <u>(Loss)</u>	Net Appreciation <u>(Depreciation)</u>
Investments, recorded at fair value as determined by quoted market price:			
Common stocks	\$ 18,364,553	\$ (24,046,918)	\$ (5,682,365)
Corporate bonds and U.S. government securities	<u>(27,993)</u>	<u>2,588,593</u>	<u>2,560,600</u>
Total	<u>\$ 18,336,560</u>	<u>\$ (21,458,325)</u>	<u>\$ (3,121,765)</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

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, 2000, 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.

A contract approved by the System's Board of Directors, permits the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral securities and letters of credit are initially pledged at 102 percent of the market value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

4. ANNUAL REQUIRED CONTRIBUTION

The County's annual retirement benefits cost and net retirement benefits obligation for the year ended December 31, 2000, were as follows:

Annual required contribution / retirement benefit cost	\$ 1,513,759
Contribution made	<u>1,513,759</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>

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes To Financial Statements

The annual required contribution for 2000 was determined as part of an actuarial valuation of the System as of December 31, 1998, using the aggregate cost actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities. 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 fair value of investments over a five-year period.

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>
12/31/98	\$ -	n/a	\$ -
12/31/99	\$1,038,243	100.0%	\$ -
12/31/00	\$1,513,759	100.0%	\$ -

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

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**REQUIRED SUPPLEMENTARY
INFORMATION**

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
December 31,						
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%
1998	133,580,663	133,430,791	(149,872)	100.1%	11,295,189	-1.3%
1999	146,587,299	144,026,699	(2,560,600)	101.8%	11,609,168	-22.1%

NOTE: For purposes of the Schedule of Funding Progress, the actuarial accrued liability values as shown are determined using the entry age actuarial cost method. However, the System uses the aggregate cost actuarial funding method, which does not identify or separately amortize unfunded actuarial liabilities.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
December 31,			
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	-	-	-
1999	1,038,243	1,038,243	100.0%
2000	1,513,759	1,513,759	100.0%