

**WASHTENAW COUNTY  
EMPLOYEES' RETIREMENT SYSTEM**

**Financial Statements**

**For The Year Ended  
December 31, 2003**

# WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

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**REHMANN ROBSON**

*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT**

February 27, 2004

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* (the "System") as of December 31, 2003, 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 auditing standards generally accepted in the United States of America. 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 do not purport to, and do not present fairly the financial position and the changes in financial position of Washtenaw County as of and for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the System's net assets held in trust for benefits at December 31, 2003, and changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplemental information 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.

*Rehmann Robson*

# **FINANCIAL STATEMENTS**

# WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Combining Statement of Plan Net Assets

December 31, 2003

(With Comparative Totals as of December 31, 2002)

	2003			2002
	Pension	Health	Total	
<b>Assets</b>				
Investments, at fair value	\$ 156,299,744	\$ 1,639,383	\$ 157,939,127	\$ 145,299,338
Accounts receivable	1,081	2	1,083	-
Accrued interest and dividends	506,072	5,308	511,380	656,030
<b>Total assets</b>	<b>156,806,897</b>	<b>1,644,693</b>	<b>158,451,590</b>	<b>145,955,368</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	111,474	26,250	137,724	120,879
<b>Net assets held in trust for pension and health benefits (a schedule of funding progress is presented on Page 8)</b>	<b>\$ 156,695,423</b>	<b>\$ 1,618,443</b>	<b>\$ 158,313,866</b>	<b>\$ 145,834,489</b>

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, 2003**  
**(With Comparative Totals for the Year Ended December 31, 2002)**

	2003			2002
	Pension	Health	Total	
<b>Additions</b>				
Investment income (loss):				
<i>From investing activities:</i>				
Net appreciation (depreciation) in fair value of investments	\$ 20,751,845	\$ 85,022	\$ 20,836,867	\$ (17,610,171)
Interest and dividends	5,588,163	148,785	5,736,948	6,792,323
Total investment gain (loss)	26,340,008	233,807	26,573,815	(10,817,848)
Investment management fees	(608,283)	(16,196)	(624,479)	(696,097)
Net gain (loss) from investing activities	25,731,725	217,611	25,949,336	(11,513,945)
<i>From securities lending activities:</i>				
Gross earnings	128,921	-	128,921	190,165
Borrower rebates	(105,591)	-	(105,591)	(156,558)
Securities lending fees	(9,287)	-	(9,287)	(13,399)
Net income from securities lending activities	14,043	-	14,043	20,208
Total net investment gain (loss)	25,745,768	217,611	25,963,379	(11,493,737)
Contributions:				
Washtenaw County	1,651,416	-	1,651,416	1,456,780
Participants	652,690	-	652,690	868,501
Total contributions	2,304,106	-	2,304,106	2,325,281
Other additions - eligible transfers from defined contribution plan	-	-	-	86,625
Total additions	28,049,874	217,611	28,267,485	(9,081,831)
<b>Deductions</b>				
Participant benefits	11,818,487	3,663,491	15,481,978	14,440,810
Administrative expenses	305,646	484	306,130	276,329
Participant refunds	-	-	-	51,343
Other deductions - transfers to defined contribution plan	-	-	-	28,894
Total deductions	12,124,133	3,663,975	15,788,108	14,797,376
Net additions (deductions) to net assets held in trust for benefits	15,925,741	(3,446,364)	12,479,377	(23,879,207)
Net assets held in trust for benefits, beginning of year	140,769,682	5,064,807	145,834,489	169,713,696
Net assets held in trust for benefits, end of year	<u>\$ 156,695,423</u>	<u>\$ 1,618,443</u>	<u>\$ 158,313,866</u>	<u>\$ 145,834,489</u>

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

# WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

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### 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. Non-Sheriff's Department 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). The Municipal Employees' Retirement System of Michigan, a separate defined benefit plan, covers Sheriff's Department employees hired on or after January 1, 1989.

Retirees and beneficiaries are eligible for postemployment healthcare benefits if they are receiving a pension from the System. The Washtenaw County Voluntary Employees Beneficiary 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, 2003:

Retirees and beneficiaries currently receiving benefits	592
Terminated employees entitled to but not yet receiving benefits	31
Vested active participants	214

Participating Sheriff and non-Sheriff Department members are required to contribute 7% and 5%, respectively, of their annual compensation to the System for pension benefits. Effective January 1, 1997, the County has the right to direct those employee contributions to either the System or the VEBA. During 2003, the County directed Sheriff Department member contributions to the VEBA; the non-Sheriff Department member contributions were retained by the System.

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, 2003, represents 15.15% of the annual covered payroll.

The System is administered by the County; accordingly, it is included as a pension trust fund in the County's 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.

**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.

### 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, 2003:

Investments at fair value, as determined	
by quoted market price:	
Common stocks:	
Not on securities loan	\$ 98,029,103
On securities loan	4,304,257
U.S. treasury strips:	
Not on securities loan	7,008,474
On securities loan	-
Other U.S. treasury securities:	
Not on securities loan	1,057,465
On securities loan	-
Other U.S. government securities:	
Not on securities loan	20,058,941
On securities loan	6,533,947
Corporate bonds and notes:	
Not on securities loan	12,461,658
On securities loan	1,711,666
Money market funds	<u>6,773,616</u>
<b>Total investments</b>	<b><u>\$ 157,939,127</u></b>



# WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

Total realized and unrealized gains and losses for the year ended December 31, 2003, are as follows:

	<b>Realized Gain (Loss)</b>	<b>Unrealized Gain (Loss)</b>	<b>Net Appreciation (Depreciation)</b>
Investments, recorded at fair value, as determined by quoted market price:			
Common stocks	\$ 2,808,959	\$ 18,772,770	\$ 21,581,729
Corporate bonds and U.S. government securities	<u>469,210</u>	<u>(1,214,072)</u>	<u>(744,862)</u>
<b>Total</b>	<b><u>\$ 3,278,169</u></b>	<b><u>\$ 17,558,698</u></b>	<b><u>\$ 20,836,867</u></b>

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.

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, 2003, 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.

# WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

## Notes To Financial Statements

### 4. ANNUAL REQUIRED CONTRIBUTION

The County's annual retirement benefits cost and net retirement benefits obligation for the year ended December 31, 2003, were as follows:

Annual required contribution / retirement benefit cost	\$ 1,651,416
Contribution made	<u>1,651,416</u>
Increase (decrease) in net retirement benefit obligation	-
Net retirement benefit obligation, beginning of year	<u>-</u>
<b>Net retirement benefit obligation, end of year</b>	<b><u>\$ -</u></b>

The annual required contribution for 2003 was determined as part of an actuarial valuation of the System as of December 31, 2001, 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 7.75% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 7.4% 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>	<b>County's Annual Retirement Benefit Cost (ARBC)</b>	<b>Percentage of ARBC Contributed</b>	<b>Net Retirement Benefit Obligation</b>
12/31/01	\$1,449,631	100.0%	\$ -
12/31/02	\$1,456,780	100.0%	\$ -
12/31/03	\$1,651,416	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

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (Overfunded) (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3/5)
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%
2000	156,959,460	152,942,076	(4,017,384)	102.6%	11,589,561	-34.7%
2001	163,564,179	166,381,778	2,817,599	98.3%	13,843,557	20.4%
2002	157,473,610	169,389,000	11,915,390	93.0%	12,836,355	92.8%

**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 December 31,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
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%
2001	1,449,631	1,449,631	100.0%
2002	1,456,780	1,456,780	100.0%
2003	1,651,416	1,651,416	100.0%