WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Financial Statements

For The Years Ended December 31, 2005 and 2004

REHMANN ROBSON

Certified Public Accountants

WASHTENAW COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial Statements

For The Years Ended
December 31, 2005 and 2004

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

TABLE OF CONTENTS

* * * * * *

INDEPENDENT AUDITORS' REPORT

March 2, 2006

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

We have audited the accompanying statements of plan net assets of the ***Washtenaw County Employees' Retirement System*** (the "System") as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years 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 audits.

We conducted our audits 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 audits provide 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 of Washtenaw County as of December 31, 2005 and 2004, and the changes in its financial position for the years then ended, 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, 2005 and 2004, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary 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.

Rehmann Robson

675 Robinson Road • P.O. Box 449 • Jackson, MI 49204 • 517.787.6503 • Fax 517.788.8111 • www.rehmann.com

FINANCIAL STATEMENTS

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets

December 31, 2005 and 2004

	2005	2004
Assets		
Investments, at fair value		
Equities	$ 87,841,834	$ 98,462,870
United States treasuries	1,409,168	1,385,547
United States treasury strips	9,105,987	8,437,141
United States agencies	22,466,732	25,240,379
Corporate securities	17,046,878	15,724,158
Mutual funds	5,545,675	-
Money market funds	10,304,530	8,277,360
Total investments	153,720,804	157,527,455
Accrued interest and dividends	475,530	499,516
Total assets	154,196,334	158,026,971
Liabilities		
Accounts payable and accrued expenses	88,742	104,590
Net assets held in trust for pension benefits (a schedule of funding progress is presented on Page 11)	**$ 154,107,592**	**$ 157,922,381**

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

WASHTENAW COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2005 and 2004

	2005	2004
Additions		
Investment income:		
From investing activities:		
Net appreciation in fair value of investments	$ 1,373,118	$ 5,172,078
Interest and dividends	5,103,387	5,525,307
Total investment income	6,476,505	10,697,385
Investment management fees	(615,613)	(665,679)
Net investment income	5,860,892	10,031,706
From securities lending activities:		
Gross earnings	573,288	156,189
Borrower rebates	(533,083)	(132,409)
Securities lending fees	(16,027)	(9,448)
Net investment income from securities lending activities	24,178	14,332
Total net investment income	5,885,070	10,046,038
Contributions:		
Washtenaw County	2,700,525	2,451,764
Participants	615,193	706,303
Total contributions	3,315,718	3,158,067
Total additions	9,200,788	13,204,105
Deductions		
Participant benefits	12,659,443	13,157,840
Administrative expenses	323,660	346,809
Participant refunds	32,474	90,941
Total deductions	13,015,577	13,595,590
Net additions (deductions) to net assets held in trust for benefits	(3,814,789)	(391,485)
Net assets held in trust for benefits, beginning of year	157,922,381	158,313,866
Net assets held in trust for benefits, end of year	$ 154,107,592	$ 157,922,381

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 and disability 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) pays these benefits.

System membership consisted of the following at December 31, 2005:

Retirees and beneficiaries currently receiving benefits	618
Terminated employees entitled to but not yet receiving benefits	26
Vested active participants	177

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. The County contributes such additional amounts, as necessary based on an actuarial determination, to provide assets sufficient to pay for member benefits. The County's contribution for the Sheriff and non-Sheriff department members for the year ended December 31, 2005, represents 15.16% and 25.08%, respectively, of 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.

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 - 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 investment earnings.

3. DEPOSITS, INVESTMENTS AND SECURITY LENDING

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

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: (investments at fair value, as determined by quoted market price)

	2005	2004
Equities:		
Not on securities loan	$ 78,424,942	$ 94,579,066
On securities loan	9,416,892	3,883,804
U.S. treasuries	1,409,168	1,385,547
U.S. treasury strips	9,105,987	8,437,141
U.S. agencies:		
Not on securities loan	19,910,464	21,123,388
On securities loan	2,556,268	4,116,991
Corporate securities:		
Not on securities loan	16,084,958	15,391,070
On securities loan	961,920	333,088
Mutual funds	5,545,675	-
Money market funds	10,304,530	8,277,360
Total investments	**$ 153,720,804**	**$ 157,527,455**

Total realized and unrealized gains and losses for the year ended December 31, 2005, are as follows:

	Realized Gain (Loss)	Unrealized Gain (Loss)	Net Appreciation (Depreciation)
Equities	$ 6,413,202	$ (3,994,207)	$ 2,418,995
Corporate and U.S. securities	(53,918)	(991,959)	(1,045,877)
Total	**$ 6,359,284**	**$ (4,986,166)**	**$ 1,373,118**

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.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy provides that 90% of its investments in fixed income securities be limited to those rated BAA or better by a nationally recognized statistical rating organization, except for United States treasury securities which are explicitly guaranteed by the U.S. government and not considered to have credit risk.

As of December 31, 2005, the System's investments in securities of U.S. agencies are rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

AAA	$ 6,030,414
AA	2,103,717
A	4,667,289
BBB	2,156,909
BB	514,945
Not Rated	1,573,604
	$ 17,046,878

The System's investments in mutual and money market funds are not rated.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that securities be held in trust by a third-party institution in the System's name or its nominee custodian's name or in bearer form. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the System's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System's investment policy requires that no more than 10% of equity securities be invested in any one industry and no more than 8% of large cap equities be invested in any one company. The policy also provides that no more than 10% of fixed income securities may be invested in any one company and no more than 8% may be invested in any single issue.

At December 31, 2005, the System's investment portfolio was concentrated as follows:

Investment Type	Issuer	% of Portfolio
Equities	Wells Real Estate Investment Trust Inc.	5.1%
U.S. agencies	Federal National Mortgage Association	6.6%
	Federal Home Loan Mortgage Association	6.3%

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

As of December 31, 2005, maturities of the System's debt securities were as follows:

		Investment Maturities (fair value by years)			
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	$ 1,409,168	$ 101,520	$ 260,813	$ -	$ 1,046,835
U.S. treasury strips	9,105,987	-	257,420	5,202,562	3,646,005
U.S. agencies	22,466,732	23	825,043	2,149,143	19,492,523
Corporate securities	17,046,878	621,820	6,604,442	2,949,990	6,870,626
	$ 50,028,765	$ 723,363	$ 7,947,718	$ 10,301,695	$ 31,055,989

Of the above balances, $10,973,455 of the U.S. agencies securities and $10,465,902 of corporate securities were callable.

The System's portfolio of U.S. agencies and corporate securities includes certain collateralized mortgage obligations (with interest-only and principal-only strips), variable-rate securities, and inverse variable-rate securities. The fair value of these investments is summarized as follows:

Collateralized mortgage obligations:	
Interest-only strips	$ 203,745
Principal-only strips	1,293,034
Variable-rate securities	424,953
Inverse variable-rate securities	1,510,575

The System invests in interest-only strips, in part, to maximize yields and as protection against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The System invests in principal-only strips to reduce the price sensitivity of its fixed-income portfolio to changes in interest rates. These principal-only strips are sensitive to interest rate increases that may result from decreasing mortgage prepayments, thus increasing the average maturity of these investments.

A variable-rate investment's coupon amount enhances or amplifies the effects of interest rate changes by greater than a one-to-one basis. The multiplier makes the fair value of these investments highly sensitive to interest rate changes. As of December 31, 2005, the System held three variable-rate investments with a fair value of $424,953. The coupon rates for these investments range from 0.0% to 5.0%; the benchmark indexes include one-month LIBOR, and 11th District Monthly Weighted Average Cost of Funds Index (San Francisco); the reset frequency is generally monthly; the coupon payment frequency is monthly; and coupon multipliers range from 1.0 to 44.8 times the benchmark index, minus 268.8% to plus 1.25%.

As of December 31, 2005, the System held four inverse variable-rate investments with a fair value of $1,510,575. With inverse variable-rate securities, coupon payments decline as interest rates increase. The coupon rates for these investments range from 0.67% to 9,018.50%; the benchmark indexes include one-month LIBOR, 11th District Monthly Weighted Average Cost of Funds Index (San Francisco), and three-month and ten-year treasury rate; the reset and coupon payment frequency is monthly; and coupon multipliers range from negative 2,253.07 to negative .60 times the benchmark index, plus 5.05% to 1,199.99%.

Securities Lending. 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, 2005 and 2004, were as follows:

	2005	2004
Annual required contribution / retirement benefit cost	$ 2,700,525	$ 2,451,764
Contribution made	2,700,525	2,451,764
Increase (decrease) in net retirement benefit obligation	-	-
Net retirement benefit obligation, beginning of year	-	-
Net retirement benefit obligation, end of year	$ -	$ -

The annual required contribution for 2005 and 2004 was determined as part of an actuarial valuation of the System as of December 31, 2003 and 2002, respectively, 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

Year Ended	County's Annual Retirement Benefit Cost (ARBC)	Percentage of ARBC Contributed	Net Retirement Benefit Obligation
12/31/03	$1,651,416	100.0%	$ -
12/31/04	2,451,764	100.0	-
12/31/05	2,700,525	100.0	-

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

* * * * * *

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)
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%
2003	157,237,691	173,989,111	16,751,420	90.4%	12,332,026	135.8%
2004	150,576,655	177,524,551	26,947,896	84.8%	12,134,962	222.1%

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 December 31,	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
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%
2004	2,451,764	2,451,764	100.0%
2005	2,700,525	2,700,525	100.0%