

WASHTENAW COUNTY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2003

Prepared by the Finance Department

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**WASHTENAW COUNTY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2003**

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**WASHTENAW COUNTY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Introductory Section





COUNTY ADMINISTRATOR

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March 5, 2004

**To the Board of Commissioners and the Citizens of
Washtenaw County:**



The Comprehensive Annual Financial Report (CAFR) of Washtenaw County for the year ended December 31, 2003, is submitted herewith. It was prepared by staff in the Finance Department with significant assistance from the accounting personnel in the Treasurer's Office, Drain Commissioner's Office, Public Works, Community Support and Treatment Services, Public Health, and other County departments. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County.

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report for Washtenaw County for the fiscal year ended December 31, 2003.

This report consists of management's representations concerning the finances of Washtenaw County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended December 31, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended December 31, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of Washtenaw County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Washtenaw County, incorporated in 1827, is located in the southeast region of Michigan's Lower Peninsula, approximately 40 miles west of Detroit. It is the sixth largest county in the State of Michigan, with an estimated 2003 population of 341,625. Sixty-five percent of the County's population resides in four main areas. Its major cities are Ann Arbor and Ypsilanti, with estimated populations of 114,477 and 22,140, respectively. The County's two largest townships are Ypsilanti and Pittsfield, with estimated populations of 52,339 and 33,141, respectively. It covers an area of approximately 710 square miles. The County seat is located in the City of Ann Arbor.

The governmental structure of Washtenaw County is based upon the State Constitution and the general laws of the State of Michigan. The County's legislative body, and its administrative body for many functions, is the County Board of Commissioners. The Board consists of eleven commissioners elected by direct vote from single-member districts.

In addition to the Board of Commissioners, there are fifteen elected officials serving the County in judicial, administrative, or staff officer roles. An organization chart depicting the County structure is shown on the page following this letter.

The County is responsible for the management and financing of many services for its citizens. These services are separated into the following major program areas: legislative, judicial, support services, human services, planning and environment, and public safety and justice.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Washtenaw County operates.

Local Economy

Washtenaw County is a tremendous place to live and work. Beautiful parks, hundreds of miles of bike and nature trails and a commitment to "open spaces" and community development means easy access to living and pleasure in every season. Combine this with top-notch school systems, and some of the greatest restaurants, galleries, and cultural events in the country. We possess a unique blend of quality urban areas and beautiful rural settings. Our largest city, Ann Arbor, has been voted one of America's top cities. We are fortunate to have many educational institutions located within our borders. The University of Michigan in Ann Arbor and Eastern Michigan University in Ypsilanti are two world class educational and cultural centers of the Midwest, with first rate research facilities, libraries, museums, theaters and sports facilities. Other institutions are Washtenaw Community College, Concordia College and Cleary College. Over 41% of county residents 25 years and older have completed four or more years of college.

Washtenaw County remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. The assessed value of the taxable property to fund the County's 2003 operations (the 2002 valuation) was approximately \$13.7 billion, an increase over the prior year of \$1.5 billion, or roughly 12.3%. The economic base of the County is continuing to increase. The 2003 valuation (to fund 2004 operations) shows a 9.8% increase over the 2002 valuation.

Washtenaw County has maintained strong population growth over the past two decades. This growth is expected to continue. Our 2000 Census population was 322,770. The estimated 2030 population is 448,020. The median household income of our residents is over 19% higher than that of the State of Michigan and the United States as a whole. Personal income figures for our citizens have risen significantly in recent years. This indicates a healthy economy and an increased standard of living for our residents.

Washtenaw County is centrally located with access to four major freeways, three airports, and five rail lines. This provides county businesses with excellent access to local, domestic, and international markets. We are one of the top ten areas in the United States for software development and are an international center for the development of sophisticated technologies related to advanced manufacturing. It is also home to one of the nation's fastest growing book retailers, as well as two major book printing and publishing manufacturers.

We are home to a highly educated and skilled work force and are centrally located to attract employers and employees. Approximately one third of the people working here commute each day from outside the County. The ten major employers in the County are: the University of Michigan, the University of Michigan Medical Center, General Motors Corporation, Visteon, St. Joseph Mercy Hospital, Pfizer Global Research and Development, Eastern Michigan University, Washtenaw County, Borders Group Inc., and University of Michigan Software.

Agriculture also plays an important role in our economy. Corn, oats, soybeans and wheat are major cash crops. Apples are the most widely grown fruit crop. Dairy farming is also found in Washtenaw County.

Long-Term Financial Planning

The Board of Commissioners has committed to ensure the long-term fiscal stability of the County. Changes in state funding, revenue growth restrictions, and unforeseen increases in overall operating costs have created an immediate need to modify the budget. Many cost reduction strategies were implemented in 2003, but the fiscal challenges will continue in 2004/05 and beyond. The 2004/05 adopted budget focuses on expanding capacity by aligning and integrating programs around communities of interest, reducing costs by addressing duplications and redundancies, and includes a framework for ensuring fiscal stability for the next ten years.

The following principles were developed to guide decisions: maintain core/mandated services, minimize community impact, attempt to find alternative funding sources for State and Federal cuts, identify and implement administrative efficiencies, distribute reductions across populations and providers, and maintain commitment to infrastructure (space, equipment, technology and professional development). These principles were instrumental in developing a balanced budget that has minimal reductions in direct services. In addition, the commitment that the Board of Commissioners made to build the infrastructure in the late 1990s is paying off in greater efficiencies. The investments made in technology and professional development have provided employees with the skills and tools necessary to do more with less.

Technology has played an increasingly larger role in how citizens, visitors, businesses, and employees conduct business with the County. The County commits to maintain and upgrade the technological infrastructure and to be a leader in E-Government aimed toward improving citizen access to government services.



In addition, the County has also continued its commitment to making sure that employees have the technology tools and training to use these tools, aimed at realizing organizational efficiencies and enhancing customer service. Systems integration to streamline core technologies will be the focus as we move into the 21st century. The four technologies to be exploited to create process efficiencies are Graphic Information Systems (GIS), Document Imaging, Workflow and Data Warehousing. All new technology projects will be required to demonstrate an equivalent cost reduction in the operating cost of doing business to the total cost of implementing the technology changes.

The Washtenaw County Space Plans seek to address many of the building space needs of Washtenaw County government for the next 25-30 years. The result of the space plans has been better service delivery to the public, accomplished by locating related county facilities in close proximity and in locations convenient to the public. The County's investment in new facilities since 1999 has shifted its focus from expansion to improvement of existing facilities.



Robert J. Delonis Center

Five new buildings - - 200 North Main Building in downtown Ann Arbor, Western County Service Center on Zeeb Road, Robert J. Delonis Center (the homeless shelter, pictured above) on Huron Street in Ann Arbor, Juvenile Detention and Day Treatment Center at the County Service Center and the Head Start Facility in Superior Township (pictured below) - - as well as major renovations - - remodeling of the County Annex Building and County Courthouse and addressing the critical infrastructure needs at the County Corrections Facility at the County Service Center - - have been financed without an increase in millage. The County's building infrastructure, as well as a comprehensive 20-year capital maintenance schedule, is well positioned to support the business needs through the coming decade.

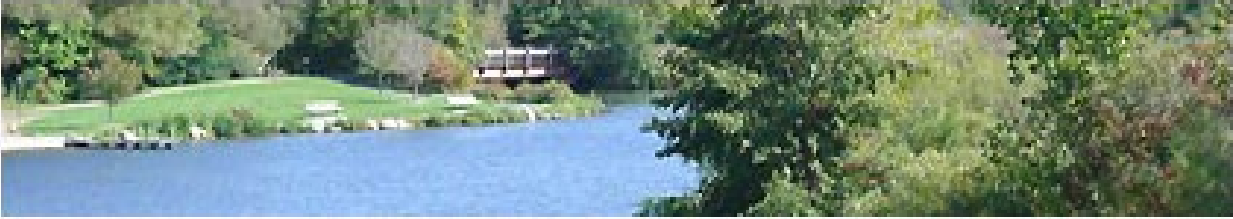
Given the projected fiscal constraints, and in concert with the systems integration, the County anticipates a net reduction in workspace. The approach to this reduction will occur in a systematic way, conscious of the opportunity to take off-line buildings whose increasing maintenance costs exceed the value they provide to the organization and redirecting their sale proceeds toward improving our core campuses.

The following is a brief summary of the specific Space Plan projects that should be accomplished during the next ten years:



Head Start Facility

- Improvement/Expansion to the Washtenaw County Corrections Facility
- Court Needs and Courthouse Remodeling/Replacement
- Expansion of the County Library Learning Resource Center
- Huron Valley Ambulance Headquarters Building
- Relocation of the County Garage



One of the qualities that makes Washtenaw County a desirable place to live is the abundance of recreational areas. The mission of the Washtenaw County Parks and Recreation Commission (WCPARC) is to improve the quality of life in Washtenaw County. The Commission is dedicated to the preservation of the natural environment and provision of facilities and programs meeting the broadest range of county residents. In order to meet these goals, the Commission elected to focus on the acquisition of land for parks and to develop a linear park and open space system preserving natural features linking parks, population and employment centers.

A November 2000 majority vote of county residents authorized the Natural Areas Preservation Program. The approval established the funding source for purchase of natural areas by the WCPARC. Approximately \$27.5 million will be generated for land acquisition by the millage during the period 2002-2011. The Natural Areas Technical Advisory Committee was established and began meeting in 2001. The seven-member body began the evaluation of a number of nominated parcels in 2002. The Parks and Recreation Commission purchased 438 acres during 2003. Natural areas have been preserved in Bridgewater Township (57 acres), Freedom Township (180 acres), Scio Township (137 acres) and Superior Township (64 acres).

These favorable local trends are counterbalanced, in large measure, however, by other factors. First, the economic downturn and stock market decline have impacted our fiscal operations in that it has increased the County's funding obligation for its defined benefit pension plans. Second is limited growth in property tax revenue. The increase in the assessed value of taxable property in the County has been constrained by the Headlee Amendment (which limits the annual increase in the State Equalized Value of real property) and the provisions of Proposal A (which limits increases in taxable property values to 5% or the rate of inflation, whichever is less). The dollar value of this limited increase essentially covers salary and fringe benefits increases, leaving very little for new investment. Furthermore, state cutbacks provide additional challenges in maintaining current services with even less support. Taken together, these fiscal factors create a trend toward ever-tightening budgets under which the County must operate.

Cash Management Policies and Practices

Cash balances are invested according to the guidelines adopted by the Board of Commissioners. Investments are generally limited to certificates of deposit and savings accounts, United States government or federal agency obligations, mutual funds, and commercial paper which is rated at the time of purchase within the two highest classifications established by standard rating services. In addition, the pension and postemployment benefits trust funds may also invest in common stock, corporate bonds, and mortgages.

Risk Management

As permitted by State law, the County is self-insured (up to certain limits) for employee medical expenses, workers' compensation, general liability, and property damage. The County has contracts with Blue Cross/Blue Shield, Care Choices and M-Care to administer the County's medical programs for its employees.

The County accounts for revenues and expenses relating to the above in three separate internal service funds: medical insurance revolving, workers' compensation revolving and insurance revolving. The risk management, contingencies and commitments notes to the basic financial statements contain additional information concerning risk management. The Statistical Section of the CAFR includes a complete schedule of insurance coverage maintained by the County.

Pension and Other Postemployment Benefits

The County has four retirement benefit plans that provide pension and postemployment healthcare benefits to all regular, full-time employees. This includes two defined benefit pension plans, a defined contribution pension plan, and a retiree healthcare plan. For the County administered plans, the total net assets held in trust for pension and healthcare benefits increased by approximately \$30.3 million, or 16.0%. The annual actuarial valuations applicable to the defined benefit pension plans continue to reflect favorable funding ratios, despite the market declines.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washtenaw County, Michigan for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2002. This was the 13th consecutive year that the County received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition to the Certificate of Achievement, the County has also received the GFOA's Award for Distinguished Budget Presentation for its budget for the biennium period beginning January 1, 2003. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device.

The preparation of this report on a timely basis was made possible by the dedicated service of Finance Department accounting staff and the accounting personnel from the Treasurer's Office, Drain Commissioner's Office, Public Works, Road Commission, Community Support and Treatment Services, Public Health and other County departments, as well as advice from Rehmann Robson. I also wish to thank the Board of Commissioners for their continued dedicated interest in the sound financial operations of the County.

Sincerely,



Robert E. Guenzel
County Administrator/Controller

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Washtenaw County,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

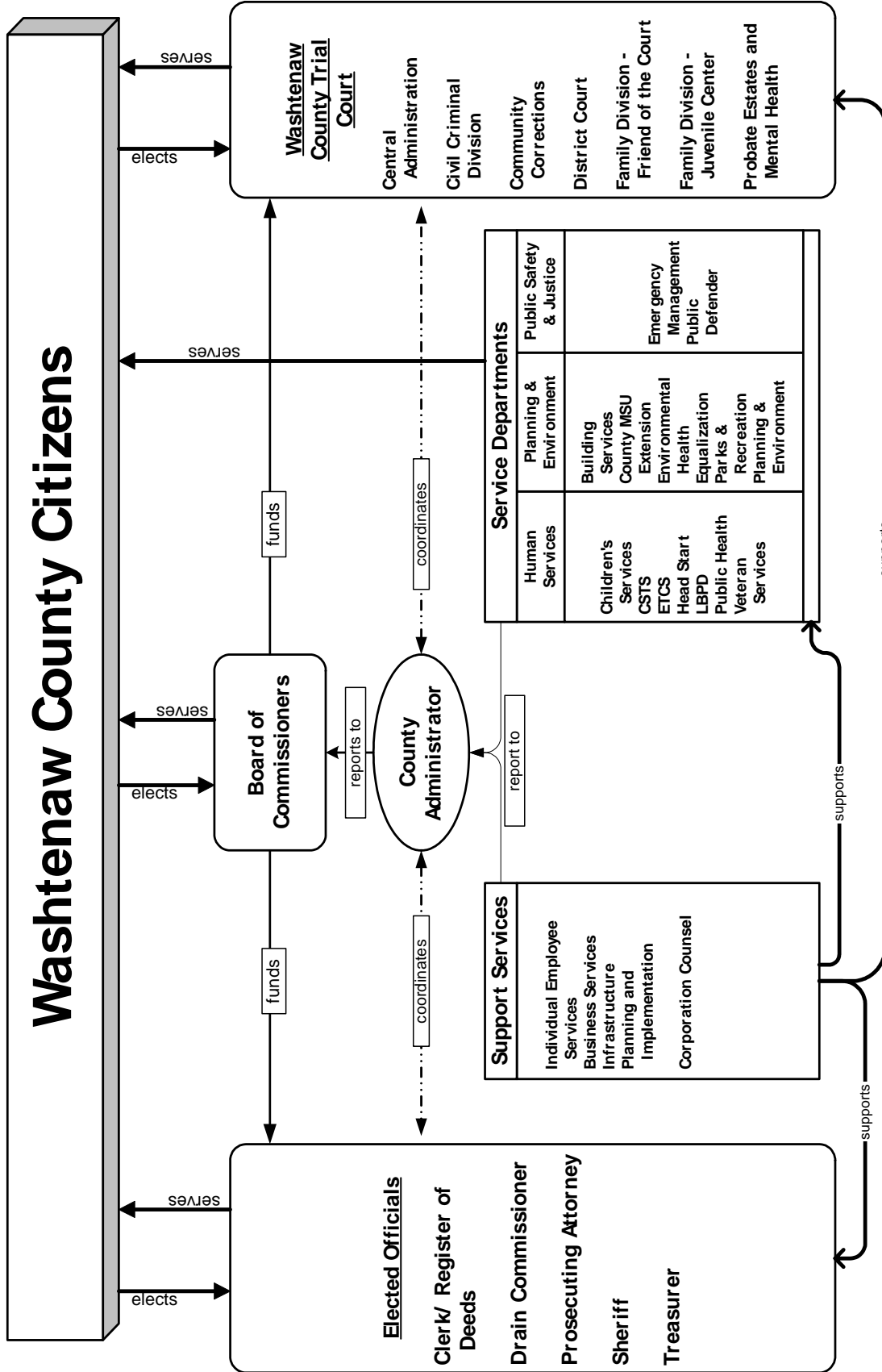
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President



Executive Director



WASHTENAW COUNTY

PRINCIPAL OFFICIALS

At December 31, 2003

Board of Commissioners

Leah Gunn, Chair

Vivienne N. Armentrout
Barbara Levin Bergman
Robert Brackenbury
Jeff Irwin
Martha Kern

Ronnie Peterson
Wesley Prater
Rolland Sizemore Jr.
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Melinda Morris
Donald E. Shelton
J. Cedric Simpson
David S. Swartz
Kirk W. Tabbey

Clerk/Register of Deeds

Peggy M. Haines

Drain Commissioner

Janis A. Bobrin

Prosecuting Attorney

Brian Mackie

Sheriff

Daniel J. Minzey

Treasurer

Catherine McClary

County Administrator

Robert E. Guenzel

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