



Financial Section





REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 5, 2004

To the Board of Commissioners
of Washtenaw County
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **WASHTENAW COUNTY, MICHIGAN**, as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Washtenaw County's management.

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Employment Training and Community Services Fund, which represents 18.1% of the assets and 15.6% of the revenues of the nonmajor governmental funds and 1.0% of the assets and 3.9% of the revenues of the governmental activities. Also, we did not audit the financial statements of the Washtenaw County Road Commission, which represents 47.7% of the assets and 76.7% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Employment Training and Community Services Fund and Washtenaw County Road Commission, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Washtenaw County, Michigan*, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2004, on our consideration of *Washtenaw County, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, in a separately issued single audit report. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-16 and the employees retirement system information on page 71 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washtenaw County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based upon our audit and the reports of other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



**Management's Discussion
and Analysis**



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Washtenaw County, Michigan we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i–viii of this report, and the accompanying basic financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$110,640,046 (*net assets*). Of this amount, \$24,731,730 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$9,743,836 during 2003.
- As of the close of the current fiscal year, the County's governmental funds (this includes the general fund, special revenue, debt service and capital projects funds) reported combined ending fund balances of \$38,241,322, a decrease of \$4,764,995 in comparison with the prior year. Of the fund balance amount, \$34,664,753 is *available for spending* at the government's discretion (*unreserved fund balance*).
- The general fund had a surplus of \$68,662 for 2003. At the end of the year, unreserved fund balance for the general fund was \$6,323,675, or approximately 9.5 percent of total general fund expenditures. Total fund balance for the general fund was \$7,464,432.
- The County's investment in capital assets increased by \$11,803,877 during 2003.
- The County's total bonded debt, which excludes delinquent tax notes, decreased by \$3,140,000 during the current fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole (government-wide financial statements) and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds.

The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information. This is limited to a schedule concerning the County's progress in funding its obligation to provide pension benefits to certain employees.

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's *net assets* and changes in them. One can think of the County's net assets – the difference between assets and liabilities – as one way to measure the County's financial health, or *financial position*. Over time, *increases or decreases* in the County's net assets are one indicator of whether its *financial health* is improving or deteriorating. During 2003, the net assets of the County increased by nearly \$9.7 million.

The Statement of Net Assets and the Statement of Activities, present information about the following:

Governmental activities. All of the County's basic services are considered to be governmental activities, including legislative, judicial, general government, public safety, public works, health, social services, culture and recreation, and other activities. Property taxes, intergovernmental revenue, and charges for services finance most of these activities.

Business-type activities. Other functions of the County that are intended to recover all or a significant portion of their costs through user fees and charges are considered to be business-type activities. These include delinquent tax collections and property foreclosures.

Component units. The County includes four legally separate entities in its financial statements: the Washtenaw County Department of Public Works Projects, the Washtenaw County Drain Commissioner, the Washtenaw County Hazardous Material Response Authority and the Washtenaw County Road Commission. The County has a fifth discretely presented component unit (the Washtenaw County Brownfield Redevelopment Authority), however it has not yet had any financial activity through 2003. Although legally separate, these "component units" are important because the County is financially accountable for them.

Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Washtenaw County Building Authority, although also legally separate, functions for all practical purposes as a department of the County, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 17-19 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statements. The fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two primary kinds of funds – *governmental and proprietary* – use different accounting approaches.

Governmental funds. Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the County's general governmental operations and the basic services it provides.

Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, community support and treatment services, parks and recreation, building authority and county capital project funds, each of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 20-27 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for delinquent tax operations and property foreclosures. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for support services provided to other departments which includes phone services, fleet, facilities management, insurance, duplicating and copier replacement, mail services and payroll fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the delinquent tax operations and property foreclosures. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28-31 of this report.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for certain amounts held on behalf of others. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

Additional Information

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-70 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the County's progress in funding its obligation to provide pension benefits to certain employees. Required supplementary information can be found on page 71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 72-101 of this report.

Financial Analysis of the County as a Whole

The government-wide financial analysis focuses on the net assets and changes in net assets of the County's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the County's assets exceeded its liabilities by \$110,640,046 at December 31, 2003.

Washtenaw County's Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 112,983,380	\$ 121,480,038	\$ 19,376,001	\$ 16,085,153	\$ 132,359,381	\$ 137,565,191
Capital assets	103,018,110	91,214,233	-	-	103,018,110	91,214,233
Total assets	<u>216,001,490</u>	<u>212,694,271</u>	<u>19,376,001</u>	<u>16,085,153</u>	<u>235,377,491</u>	<u>228,779,424</u>
Long-term liabilities outstanding	45,722,348	48,775,517	9,004,404	6,000,000	54,726,752	54,775,517
Other liabilities	69,922,913	73,024,985	87,780	82,712	70,010,693	73,107,697
Total liabilities	<u>115,645,261</u>	<u>121,800,502</u>	<u>9,092,184</u>	<u>6,082,712</u>	<u>124,737,445</u>	<u>127,883,214</u>
Net assets:						
Invested in capital assets, net of related debt	71,844,722	52,419,325	-	-	71,844,722	52,419,325
Restricted	5,063,594	13,190,358	9,000,000	6,000,000	14,063,594	19,190,358
Unrestricted	<u>23,447,913</u>	<u>25,284,086</u>	<u>1,283,817</u>	<u>4,002,441</u>	<u>24,731,730</u>	<u>29,286,527</u>
Total net assets	<u>\$ 100,356,229</u>	<u>\$ 90,893,769</u>	<u>\$ 10,283,817</u>	<u>\$ 10,002,441</u>	<u>\$ 110,640,046</u>	<u>\$ 100,896,210</u>

By far, the largest portion of the County's net assets, \$71,844,722 (64.9 percent), is its investment in capital assets (i.e., land, buildings, vehicles and equipment), net of any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$14,063,594 (12.7 percent), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$24,731,730 (22.4 percent), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

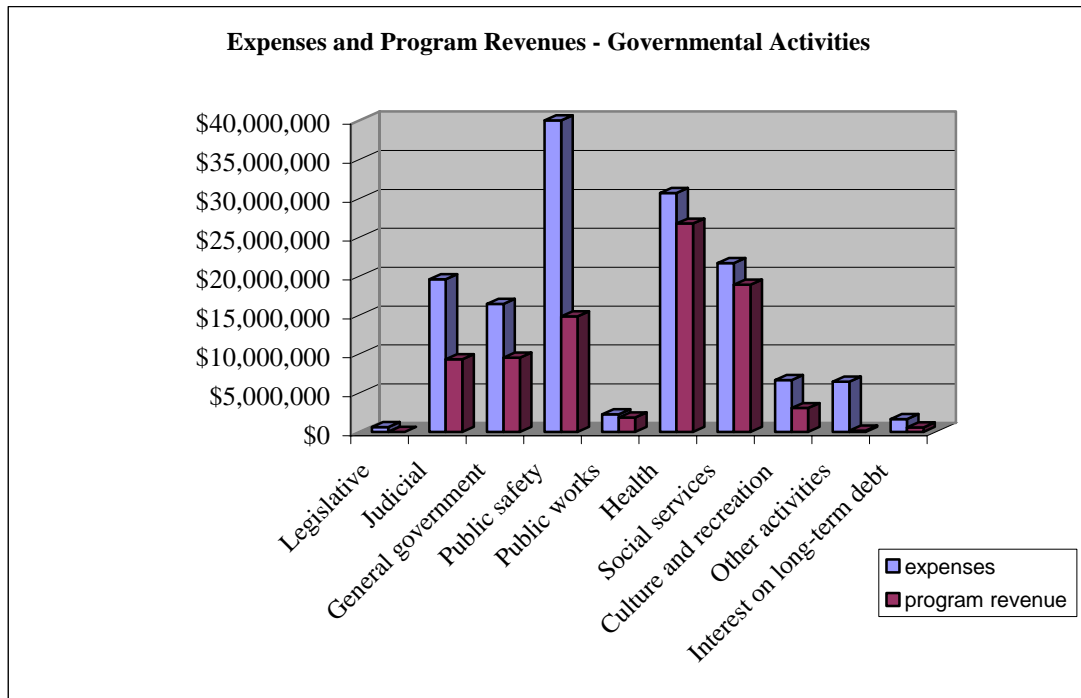
Washtenaw County's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue:						
Program revenue:						
Charges for services	\$ 28,740,180	\$ 29,820,006	\$ 3,210,913	\$ 3,435,482	\$ 31,951,093	\$ 33,255,488
Operating grants and contributions	52,695,000	46,297,193	-	-	52,695,000	46,297,193
Capital grants and contributions	3,473,175	1,091,143	-	-	3,473,175	1,091,143
General revenue:						
Property taxes	60,406,712	56,462,144	-	-	60,406,712	56,462,144
Grants and contributions not restricted to specific programs	6,538,510	7,503,237	-	-	6,538,510	7,503,237
Other	1,640,730	2,387,051	(74,699)	1,611,591	1,566,031	3,998,642
Total revenue	153,494,307	143,560,774	3,136,214	5,047,073	156,630,521	148,607,847
Expenses:						
Legislative	597,651	638,162	-	-	597,651	638,162
Judicial	19,584,218	18,074,211	-	-	19,584,218	18,074,211
General government	16,429,079	13,966,388	-	-	16,429,079	13,966,388
Public safety	40,927,414	36,228,288	-	-	40,927,414	36,228,288
Public works	2,246,625	1,413,125	-	-	2,246,625	1,413,125
Health	30,669,892	31,477,846	-	-	30,669,892	31,477,846
Social services	21,672,601	22,484,109	-	-	21,672,601	22,484,109
Culture and recreation	6,634,291	6,382,489	-	-	6,634,291	6,382,489
Other activities	6,088,589	6,062,374	-	-	6,088,589	6,062,374
Interest on long-term debt	1,643,952	1,791,363	-	-	1,643,952	1,791,363
Delinquent tax collections	-	-	408,644	489,348	408,644	489,348
Total expenses	146,494,312	138,518,355	408,644	489,348	146,902,956	139,007,703
Increase in net assets before transfers	6,999,995	5,042,419	2,727,570	4,557,725	9,727,565	9,600,144
Transfers	2,462,465	3,733,894	(2,446,194)	(3,737,982)	16,271	(4,088)
Increase in net assets	9,462,460	8,776,313	281,376	819,743	9,743,836	9,596,056
Net assets - beginning, as restated	90,893,769	82,117,456	10,002,441	9,182,698	100,896,210	91,300,154
Net assets - end of year	\$ 100,356,229	\$ 90,893,769	\$ 10,283,817	\$ 10,002,441	\$ 110,640,046	\$ 100,896,210

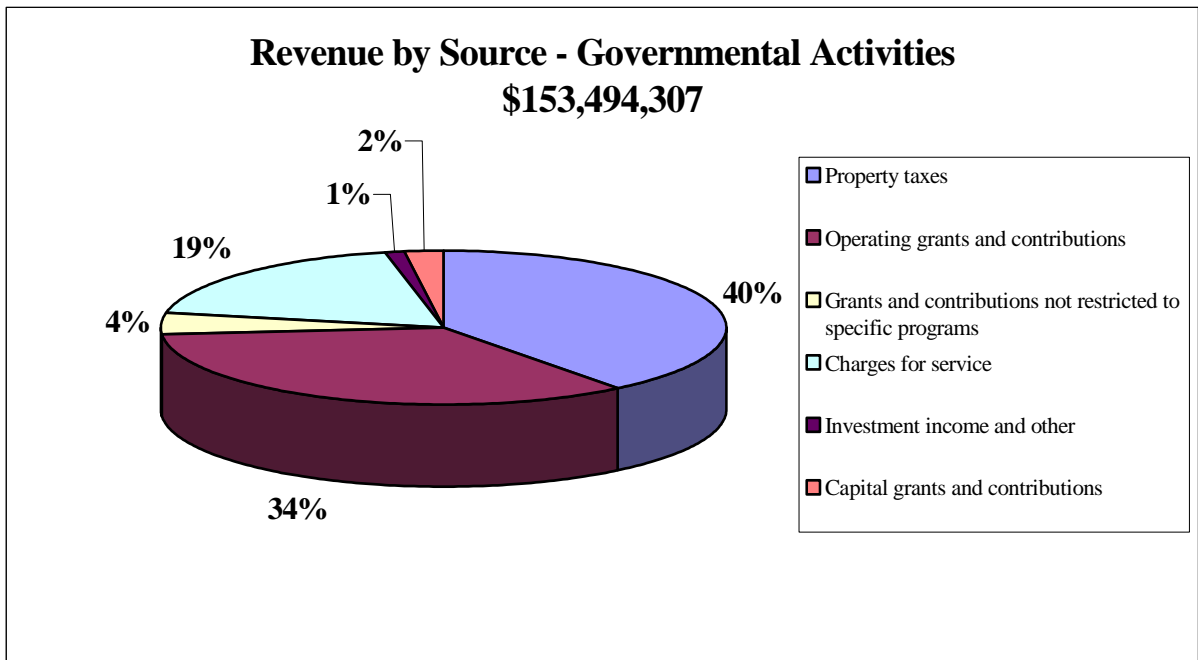
The County's net assets increased by \$9.7 million during the current fiscal year; \$9.4 million for governmental activities and \$0.3 million for business-type activities.

Governmental activities. Governmental activities increased the County's net assets by \$9.4 million, accounting for 97.1 percent of the total growth in the net assets of the County. Key elements of this increase are as follows:

- Property taxes increased by approximately \$3.9 million (7.0 percent) during the year. This increase is the product of increased taxable values.
- Charges for services decreased by approximately \$1.1 million (3.6 percent) during the year because of reduced revenue in building services, environmental health and public works resulting from the slowdown of the building industry.
- Operating grants for governmental activities increased by \$6.4 million (13.8 percent) during the year. New grant awards furnished additional resources to supplement programs in the areas of health, public safety, social services, and planning and environment.
- Capital grants and contributions increased by \$2.4 million (218.3 percent) in 2003 due to grant expenditure reimbursement for constructing the Head Start Facility and private contributions made toward the cost of constructing the homeless shelter (Robert J. Delonis Center).
- Investment income decreased approximately \$746,000 (31.2 percent) due to depressed interest rates.

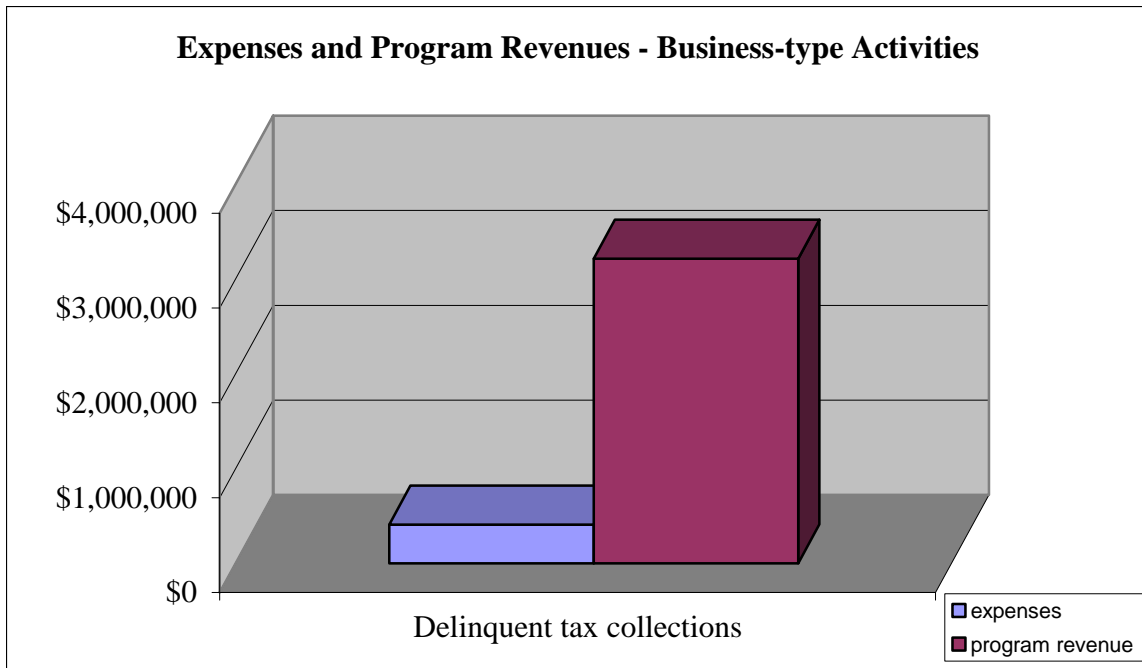


For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception, however, was the County's public safety function. The growth in expenses of \$4.6 million pertains to Sheriff operations. Jail overcrowding was a reality during almost all of 2003, with a total of 14 overcrowding situations, resulting in increased costs to operate because of increased staffing levels and additional medical services, food and supplies being needed with the elevated number of inmates. In addition, police services expenditures increased due to the higher than anticipated costs associated with providing contracted police services to local units, overtime costs for normal operations and costs incurred from the August blackout. Furthermore, the growth in expenses for Sheriff operations include continuous rising fringe benefit costs, an issue that is outside the Sheriff's control and impacts all functions of the County.



Business-type activities. Business-type activities increased the County's net assets by \$0.3 million, accounting for 2.9 percent of the total growth in the government's net assets for the current year. Key elements of the current year increase are as follows:

- Charges for services for business-type activities decreased \$224,569 in comparison to the prior year. Expenditures decreased by \$80,704. Both occurred due to lower delinquent tax and property foreclosure activity during 2003.



Financial Analysis of the County’s Funds

As noted earlier, Washtenaw County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$38,241,322, a decrease of \$4,764,995 in comparison with the prior year. Of the fund balance amount, \$34,664,753 constitutes *unreserved fund balance*, which is available for spending at the government’s discretion.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,323,675, while total fund balance was \$7,464,432. As a measure of the general fund’s liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 9.5 percent of total general fund expenditures.

The fund balance of the County’s general fund increased by \$68,662 during the current fiscal year. This is primarily attributable to growth in property tax and grants and contributions, as previously discussed above, relative to government-wide governmental activities.

The financial position of the community support and treatment services fund improved by \$429,004 during 2003, reducing the fund deficit to \$123,167. This reduction, which was accomplished through a transfer, is in accordance with the deficit elimination plan approved by the Board of Commissioners in 1998.

The parks and recreation fund had a total fund balance of \$11,605,971, which increased by over \$1.8 million in the current year. The growth in fund balance is attributable to a voter-approved millage for the purpose of acquiring land. Fund balance will be used in subsequent years as the land acquisitions are completed.

The building authority capital projects fund has a total fund balance of \$2,203,339, which decreased by \$4.2 million during the year. The decrease is attributable to expenditures for building construction projects. The remaining funds will be used for improvement, expansion or replacement of existing facilities, which will take place in subsequent years.

The county capital projects fund has a total fund balance of \$13,812,843, all of which will be used for the remodeling and modification of existing facilities. In addition, improvements to existing facilities such as replacement of roof systems, carpeting, and other interior finishes are also included. The net decrease in fund balance during the current year in the county capital projects fund was \$2,719,517.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the delinquent tax, property foreclosure and internal service funds at the end of the year amounted to \$139,036, \$1,144,781 and \$802,455, respectively. The delinquent tax fund had a decrease in net assets for the year of \$62,844, whereas the property foreclosure fund had an increase of \$344,220 and the internal service funds had a decrease of \$495,031. Other factors concerning the finances of the delinquent tax fund have already been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Revenues in the general fund (including transfers in) increased by approximately \$2.7 million from the original to the final budget. This was primarily attributable to a \$1.8 million increase in the budget for real estate transfer revenues as a result of a significantly high volume of transactions due in part to low interest rates for mortgages, E-commerce for certified copies of records and miscellaneous increases in fees and services. Budgeted transfers in increased by \$800,000 to reflect monies for central dispatch coming from the County's E-911 fund. Various other small increases and decreases in budgeted revenues took place also.

There was a corresponding \$2.7 million increase (3.3%) between the original and final amended expenditure budget (including transfers out). There was a \$1.6 million increase for the Sheriff's Department. \$1.1 million was to cover salary, fringe benefit and overtime in the jail. \$500,000 was to cover food and medical contracts because the jail population has been over capacity. There was a \$786,000 in allocated increases in general government activities for county clerk/register of deeds (personnel services for additional positions and overtime), finance and human resources (advertising position vacancies and organizational/professional development). There was \$419,000 in increases allocated to judicial activities for trial court functions. Various other small increases and decreases in budgeted expenditures also took place.

There was a net decrease of \$316,000 in other unallocated expenditures and transfers out. The major reason for this was that some transfers out were not executed during 2003. It should also be noted, that other unallocated expenditures were designated as transfers out in the original budget, then reclassified later in the year as other services and charges, and have final budget amounts in that category, but no original budget amounts.

Overall during the year, both general fund revenues and expenditures were less than the final budget. This resulted in an increase in the actual fund balance of \$68,662, which was less than the final amended budget amount by \$181,338.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental activities as of December 31, 2003, amounted to \$103,018,110 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and machinery and equipment. The total increase in the County's investment in capital assets for the current fiscal year was 13 percent. The County's business-type activities have no capital assets.

Major capital asset events during the current fiscal year included the following:

- Completion of three building projects (the Robert J. Delonis Center, the Head Start Facility, and the Rolling Hills Water Park expansion) at a combined cost of approximately \$12.5 million.
- New land purchases in the amount of \$3.2 million under the Natural Areas Preservation Program.
- Various buildings and building additions/improvements (\$2.7 million), and new vehicles and equipment (\$2.5 million).

Washtenaw County's Capital Assets
(net of depreciation)

	Governmental activities	
	<u>2003</u>	<u>2002</u>
Land	\$ 12,267,428	\$ 9,093,704
Construction in progress	-	4,476,869
Buildings	76,213,465	63,390,229
Improvements other than buildings	7,744,610	7,631,489
Machinery and equipment	<u>6,792,607</u>	<u>6,621,942</u>
Total	<u>\$ 103,018,110</u>	<u>\$ 91,214,233</u>

Additional information on the County's capital assets can be found in note III.C on pages 49-51 of this report.

Long-term debt. At the end of the current fiscal year, the County had total bonded debt outstanding of \$44,035,000. This entire amount comprises debt backed by the full faith and credit of the County.

Washtenaw County's Outstanding Debt
General Obligation

	Governmental activities		Business-type activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General obligation bonds	\$ 35,035,000	\$ 38,175,000	\$ -	\$ -	\$ 35,035,000	\$ 38,175,000
Delinquent tax notes	-	-	9,000,000	6,000,000	9,000,000	6,000,000
Total	<u>\$ 35,035,000</u>	<u>\$ 38,175,000</u>	<u>\$ 9,000,000</u>	<u>\$ 6,000,000</u>	<u>\$ 44,035,000</u>	<u>\$ 44,175,000</u>

The County's total debt decreased by \$140,000 (.32 percent) during the current fiscal year. The County retired debt of \$11,845,000 in general obligation bonds and \$6,000,000 in delinquent tax notes during 2003.

The only new borrowing during the year was \$8,705,000 in general obligation bonds for governmental activities for the County's space plan projects and \$9,000,000 in delinquent tax notes for business-type activities. Debt service requirements for general obligation bonds of \$3,400,000 and interest of \$1,616,678 are payable during 2004. The principal payment for delinquent tax notes of \$9,000,000 and an interest payment of \$157,500 is due March 11, 2004.

The County has an "Aa3" rating for both general obligation bonds and tax notes from Moody's. The County has an "AA" rating for both general obligation bonds and tax notes from Standard & Poor's. Finally, the County has a "Prime-1" rating for general obligation tax notes from Fitch.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (i.e., State Equalized Value). The current debt limitation for the County is \$1,504,569,055, which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in note III.G on pages 54-60 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's biennial budget for the 2004 and 2005 fiscal years:

- The economic downturn and stock market decline have impacted fiscal operations. Stock market declines have increased the County's funding obligation for its defined benefit pension plans. This trend will continue into the foreseeable future.
- Interest rates have been at a fairly low level over the past few years. The 2004/2005 budget assumes a rise in interest earnings at a level consistent with previous years, with rates between 4.5% and 5.0%.
- Insurance premiums, especially for governmental entities, have dramatically increased due to the extensive settlement payments related to September 11th and the subsequent stock market performance. The County has seen an 81% increase in liability costs over the past three years. A related increase is a national trend in escalating healthcare insurance costs. Many national projections point to a doubling of health care costs over the next four to five years.
- The unemployment rate for the County is currently 3.1%, which is an increase from a rate of 2.9% a year ago. This compares favorably to the state's average unemployment rate of 7.0% and the national average rate of 6.0%.
- Michigan has two constitutional laws that limit property tax growth to the rate of inflation or a maximum allowable increase in an assessment of 5.0%, whichever is smaller. For the 2004/2005 budget the applicable inflation rate is only 1.5%. Therefore, property tax revenues are budgeted to increase 5.39% in 2004 and 5.7% in 2005.

- The State of Michigan has been dealing with projected budgetary shortfalls for the past two years and has reduced or held flat the funding amounts for programs at the local level. The distribution formula for State Revenue Sharing has been overridden and has instead been based on the previous year's distribution. For 2004 this amount is a 3% reduction from the 2003 distribution.
- The County has committed to maintaining a general fund balance that is at least 8.0% of operating expenditures.
- Inflationary trends in the region compare favorably to national indices.

Contacting the County's Financial Management

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Washtenaw County Finance Department, 220 North Main Street, P.O. Box 8645, Ann Arbor, Michigan 48107-8645.

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Basic Financial Statements



WASHTENAW COUNTY
Statement of Net Assets
December 31, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and pooled investments	\$ 36,983,969	\$ 10,555,009	\$ 47,538,978	\$ 17,041,090
Receivables, net	74,586,417	8,861,992	83,448,409	53,177,596
Internal balances	62,916	(41,000)	21,916	-
Prepaid items and other assets	1,350,078	-	1,350,078	1,121,415
Capital assets not being depreciated	12,267,428	-	12,267,428	5,757,906
Capital assets being depreciated, net	90,750,682	-	90,750,682	66,294,005
Total assets	216,001,490	19,376,001	235,377,491	143,392,012
Liabilities				
Accounts payable and accrued expenses	10,100,067	87,780	10,187,847	8,984,718
Accrued interest payable	484,000	-	484,000	378,711
Deferred revenue	59,338,846	-	59,338,846	502,901
Long-term liabilities:				
Due within one year	5,028,001	9,000,899	14,028,900	6,076,996
Due in more than one year	40,694,347	3,505	40,697,852	49,301,252
Total liabilities	115,645,261	9,092,184	124,737,445	65,244,578
Net assets				
Invested in capital assets, net of related debt	71,844,722	-	71,844,722	60,757,065
Restricted for:				
Debt service	12,676	9,000,000	9,012,676	1,549,142
Capital projects	4,624,878	-	4,624,878	6,845,435
Other purposes	426,040	-	426,040	-
Unrestricted	23,447,913	1,283,817	24,731,730	8,995,792
Total net assets	\$ 100,356,229	\$ 10,283,817	\$ 110,640,046	\$ 78,147,434

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

WASHTENAW COUNTY
Statement of Activities
Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 597,651	\$ -	\$ -	\$ -	\$ (597,651)
Judicial	19,584,218	3,352,989	5,948,202	-	(10,283,027)
General government	16,429,079	7,406,625	2,095,557	-	(6,926,897)
Public safety	40,927,414	11,049,685	3,787,579	-	(26,090,150)
Public works	2,246,625	187,780	1,649,900	-	(408,945)
Health	30,669,892	3,279,950	23,482,287	-	(3,907,655)
Social services	21,672,601	359,584	15,071,563	3,473,175	(2,768,279)
Culture and recreation	6,634,291	2,958,441	89,673	-	(3,586,177)
Other activities	6,088,589	145,126	-	-	(5,943,463)
Interest on long-term debt	1,643,952	-	570,239	-	(1,073,713)
Total governmental activities	146,494,312	28,740,180	52,695,000	3,473,175	(61,585,957)
Business-type activities:					
Delinquent tax collection	180,046	2,563,993	-	-	2,383,947
Property foreclosure	228,598	646,920	-	-	418,322
Total business-type activities	408,644	3,210,913	-	-	2,802,269
Total primary government	\$ 146,902,956	\$ 31,951,093	\$ 52,695,000	\$ 3,473,175	\$ (58,783,688)
Component units					
Department of Public Works Projects	\$ 2,543,263	\$ -	\$ -	\$ 3,893,456	\$ 1,350,193
Drain Commissioner	1,118,423	259,125	-	700,307	(158,991)
Hazardous Materials Response Authority	62,866	30,726	18,735	-	(13,405)
Road Commission	17,158,470	-	29,724,845	-	12,566,375
Total component units	\$ 20,883,022	\$ 289,851	\$ 29,743,580	\$ 4,593,763	\$ 13,744,172

Continued...

WASHTENAW COUNTY
Statement of Activities (concluded)
Year Ended December 31, 2003

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Changes in net assets				
Net (expense) revenue	\$ (61,585,957)	\$ 2,802,269	\$ (58,783,688)	\$ 13,744,172
General revenues:				
Property taxes	60,406,712	-	60,406,712	-
Grants and contributions not restricted to specific programs	6,538,510	-	6,538,510	-
Unrestricted investment earnings	1,640,730	(74,699)	1,566,031	464,131
Gain on sale of capital assets	-	-	-	130,024
Transfers - internal activities	2,462,465	(2,446,194)	16,271	-
Total general revenues and transfers	<u>71,048,417</u>	<u>(2,520,893)</u>	<u>68,527,524</u>	<u>594,155</u>
Change in net assets	9,462,460	281,376	9,743,836	14,338,327
Net assets, beginning of year, restated	<u>90,893,769</u>	<u>10,002,441</u>	<u>100,896,210</u>	<u>63,809,107</u>
Net assets, end of year	<u><u>\$ 100,356,229</u></u>	<u><u>\$ 10,283,817</u></u>	<u><u>\$ 110,640,046</u></u>	<u><u>\$ 78,147,434</u></u>

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

WASHTENAW COUNTY
Balance Sheet - Governmental Funds
December 31, 2003

	<u>General</u>	<u>Community Support & Treatment Services</u>	<u>Parks and Recreation</u>	<u>Building Authority Capital Projects</u>	<u>County Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Assets							
Cash and pooled investments	\$ 7,588,782	\$ 12,767	\$ 11,693,818	\$ 3,387,403	\$ 9,030,828	\$ 3,358,181	\$ 35,071,779
Receivables:							
Taxes - current	49,559,017	-	7,771,911	-	-	-	57,330,928
Taxes - delinquent	472,472	-	-	-	-	-	472,472
Accounts	81,866	118,923	-	-	-	436,871	637,660
Due from other funds	558,294	40,831	1,395	-	1,893,289	2,451,141	4,944,950
Interfund receivable	-	-	-	-	3,864,628	-	3,864,628
Due from other governments	2,988,408	207,318	75,000	-	-	6,070,695	9,341,421
Advances to other funds	1,130,507	-	-	-	-	-	1,130,507
Prepaid items	10,250	725	-	-	-	13,548	24,523
<u>TOTAL ASSETS</u>	<u>\$ 62,389,596</u>	<u>\$ 380,564</u>	<u>\$ 19,542,124</u>	<u>\$ 3,387,403</u>	<u>\$ 14,788,745</u>	<u>\$ 12,330,436</u>	<u>\$ 112,818,868</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Accounts payable	\$ 135,501	\$ 112,135	\$ 22,695	\$ 1,022,061	\$ 120,611	\$ 763,439	\$ 2,176,442
Retainages payable	-	-	-	162,003	-	-	162,003
Accrued liabilities	2,866,465	358,999	137,802	-	2,512	1,566,022	4,931,800
Due to other funds	1,890,602	13,532	3,745	-	852,779	1,553,992	4,314,650
Due to other governments	-	19,065	-	-	-	495,790	514,855
Interfund payable	-	-	-	-	-	3,864,628	3,864,628
Deferred revenue	50,032,596	-	7,771,911	-	-	725,461	58,529,968
Advances from other governments	-	-	-	-	-	83,200	83,200
Total liabilities	<u>54,925,164</u>	<u>503,731</u>	<u>7,936,153</u>	<u>1,184,064</u>	<u>975,902</u>	<u>9,052,532</u>	<u>74,577,546</u>
Fund balances							
Reserved:							
Reserved for land acquisition	-	-	2,421,539	-	-	-	2,421,539
Reserved for long-term advances	1,130,507	-	-	-	-	-	1,130,507
Reserved for prepaid items	10,250	725	-	-	-	13,548	24,523
Unreserved:							
Designated for subsequent year's expenditures	-	-	7,749	-	-	179,123	186,872
Undesignated (deficit)	6,323,675	(123,892)	9,176,683	2,203,339	13,812,843	-	31,392,648
Undesignated, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	3,072,557	3,072,557
Debt service funds	-	-	-	-	-	12,676	12,676
Total fund balances	<u>7,464,432</u>	<u>(123,167)</u>	<u>11,605,971</u>	<u>2,203,339</u>	<u>13,812,843</u>	<u>3,277,904</u>	<u>38,241,322</u>
<u>LIABILITIES AND FUND BALANCES</u>	<u>\$ 62,389,596</u>	<u>\$ 380,564</u>	<u>\$ 19,542,124</u>	<u>\$ 3,387,403</u>	<u>\$ 14,788,745</u>	<u>\$ 12,330,436</u>	<u>\$ 112,818,868</u>

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

WASHTENAW COUNTY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2003

Fund balances - total governmental funds \$ 38,241,322

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	132,424,695
Deduct - accumulated depreciation	(32,010,251)

Other long-term assets are not available to pay for current-period expenditures and therefore are not recorded in the funds.	4,127,883
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Discounts and premiums on bonds are reported as other financing uses or sources in the governmental funds, whereas they are capitalized and amortized for net assets (and netted against bonds payable)

Add - bond discounts	47,500
Deduct - bond premiums	(137,519)

Deferred charges for bond issuance costs are currently expended in the governmental funds, whereas they are capitalized and amortized for net assets.	147,899
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Losses on refunding are not reported in the governmental funds, whereas they are capitalized and amortized for net assets (and netted against bonds payable)	462,200
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Internal service funds are used by management to charge the costs of certain activities such as insurance, worker's compensation, and building occupancy and maintenance. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	3,406,121
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and notes payable	(35,673,452)
Deduct - accrued interest on bonds payable	(479,891)
Deduct - accrued compensated absences and other long-term liabilities	(10,200,278)

Net assets of governmental activities \$ 100,356,229

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

WASHTENAW COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2003

	<u>General</u>	<u>Community Support & Treatment Services</u>	<u>Parks and Recreation</u>	<u>Building Authority Capital Projects</u>	<u>County Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues							
Taxes	\$ 52,227,354	\$ -	\$ 8,179,358	\$ -	\$ -	\$ -	\$ 60,406,712
Licenses and permits	169,388	-	-	-	-	3,247,893	3,417,281
Intergovernmental	10,563,759	16,249,725	-	498,306	235,935	27,967,592	55,515,317
Charges for services	16,262,412	352,114	2,955,183	-	553,461	3,647,499	23,770,669
Fines and forfeits	1,125,425	-	-	-	-	67,221	1,192,646
Contributions	-	-	-	2,740,824	-	-	2,740,824
Investment income	612,244	-	339,490	131,686	352,432	62,443	1,498,295
Other	1,084,307	469,349	36,889	2,391	287,153	3,306,680	5,186,769
Total revenues	<u>82,044,889</u>	<u>17,071,188</u>	<u>11,510,920</u>	<u>3,373,207</u>	<u>1,428,981</u>	<u>38,299,328</u>	<u>153,728,513</u>
Expenditures							
Current:							
Legislative	578,996	-	-	-	-	-	578,996
Judicial	13,602,187	-	-	-	-	5,552,452	19,154,639
General government	13,284,578	-	-	-	-	1,420,600	14,705,178
Public safety	33,285,150	-	-	-	-	6,482,040	39,767,190
Public works	402,840	-	-	-	-	1,888,925	2,291,765
Health	-	17,010,170	-	-	-	13,138,745	30,148,915
Social services	1,243,477	-	-	-	-	20,719,618	21,963,095
Culture and recreation	718,738	-	9,658,975	-	-	742,836	11,120,549
Other	3,634,853	-	-	-	-	-	3,634,853
Capital outlay	-	-	-	7,531,928	5,553,384	-	13,085,312
Debt service:							
Principal	-	-	-	-	-	3,605,000	3,605,000
Interest and fiscal charges	-	-	-	-	-	1,632,341	1,632,341
Bond issuance costs	-	-	-	38,609	-	107,850	146,459
Total expenditures	<u>66,750,819</u>	<u>17,010,170</u>	<u>9,658,975</u>	<u>7,570,537</u>	<u>5,553,384</u>	<u>55,290,407</u>	<u>161,834,292</u>
Revenues over (under) expenditures	<u>15,294,070</u>	<u>61,018</u>	<u>1,851,945</u>	<u>(4,197,330)</u>	<u>(4,124,403)</u>	<u>(16,991,079)</u>	<u>(8,105,779)</u>
Other financing sources (uses)							
Proceeds of refunding bonds	-	-	-	-	-	8,705,000	8,705,000
Premium on refunding bonds	-	-	-	-	-	151,271	151,271
Payment to refunding escrow agent	-	-	-	-	-	(8,748,421)	(8,748,421)
Transfers in	925,501	367,986	-	-	5,149,332	17,963,542	24,406,361
Transfers out	(16,150,909)	-	-	-	(3,744,446)	(1,278,072)	(21,173,427)
Total other sources (uses)	<u>(15,225,408)</u>	<u>367,986</u>	<u>-</u>	<u>-</u>	<u>1,404,886</u>	<u>16,793,320</u>	<u>3,340,784</u>
Net change in fund balances	68,662	429,004	1,851,945	(4,197,330)	(2,719,517)	(197,759)	(4,764,995)
Fund balances (deficit):							
Beginning of year, restated	<u>7,395,770</u>	<u>(552,171)</u>	<u>9,754,026</u>	<u>6,400,669</u>	<u>16,532,360</u>	<u>3,475,663</u>	<u>43,006,317</u>
End of year	<u>\$ 7,464,432</u>	<u>\$ (123,167)</u>	<u>\$ 11,605,971</u>	<u>\$ 2,203,339</u>	<u>\$ 13,812,843</u>	<u>\$ 3,277,904</u>	<u>\$ 38,241,322</u>

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

WASHTENAW COUNTY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2003

Net change in fund balances - total governmental funds \$ (4,764,995)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	15,740,400
Deduct - net loss on sale of capital assets	(152,276)
Deduct - depreciation expense	(3,386,196)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. (374,250)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - refunding bond and note proceeds	(8,705,000)
Add - payment to refunding bond escrow agent	8,748,421
Add - bond issuance costs	146,459
Deduct - premium on bonds	(151,271)
Add - principal payments on long-term liabilities	3,605,000

Accrued interest expense on bonds and the amortization of bond issuance costs, discounts, premiums and deferred losses are not recorded by governmental funds, but are reported under interest and fiscal charges for purposes of net assets:

Accrued interest expense	71,398
Amortization of bond issuance costs	(14,260)
Amortization of discount on bonds	(2,500)
Amortization of premium on bonds	13,752
Amortization of deferred loss on refunding	(46,221)

Internal service funds are used by management to charge the costs of certain activities such as insurance, workers' compensation, and building occupancy and maintenance to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - net operating income from governmental activities in internal service funds	195,644
Add - interest revenue from governmental internal service funds	142,435
Add - net loss on disposal of capital assets in governmental internal service funds	(28,861)
Deduct - interest expense and fiscal charges from governmental internal service funds	(33,780)
Deduct - net transfer from governmental internal service fund to debt service fund	(770,469)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrual for accrued compensated absences	(770,970)
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Change in net assets of governmental activities \$ 9,462,460

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

WASHTENAW COUNTY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
Year Ended December 31, 2003

	<u>Budget</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget -
				Positive
				(Negative)
Revenues				
Taxes	\$ 52,010,540	\$ 52,256,714	\$ 52,227,354	\$ (29,360)
Licenses and permits	113,500	153,500	169,388	15,888
Intergovernmental	11,758,263	11,362,089	10,563,759	(798,330)
Charges for services	14,537,273	16,272,692	16,262,412	(10,280)
Fines and forfeits	1,275,600	1,275,600	1,125,425	(150,175)
Investment income	1,038,731	1,038,731	612,244	(426,487)
Other	885,379	1,136,973	1,084,307	(52,666)
	<u>81,619,286</u>	<u>83,496,299</u>	<u>82,044,889</u>	<u>(1,451,410)</u>
Expenditures				
Legislative -				
Board of commissioners	596,011	580,011	578,996	1,015
Judicial:				
Circuit court	3,668,632	3,765,732	3,765,436	296
District court	3,593,308	3,783,308	3,783,023	285
Probate court	740,384	799,484	799,297	187
Probate court - juvenile	2,977,180	3,040,180	3,038,952	1,228
Probation department	141,829	121,829	120,959	870
Public defender	2,065,243	2,095,243	2,094,520	723
	<u>13,186,576</u>	<u>13,605,776</u>	<u>13,602,187</u>	<u>3,589</u>
General government:				
Information technology	6,168,437	6,048,437	6,033,708	14,729
Building authority	6,588	7,788	7,688	100
Clerk / Register	4,036,879	4,564,288	4,563,721	567
Human resources	1,425,532	1,622,632	1,595,979	26,653
Drain commissioner	1,951,860	1,843,960	1,834,447	9,513
Equalization	1,242,756	1,242,756	1,242,366	390
Planning	1,197,306	1,120,966	1,116,859	4,107
Finance	3,436,184	3,625,684	3,622,354	3,330
Corporation counsel	249,740	250,740	250,176	564
Treasurer	1,106,396	1,251,396	1,245,944	5,452
Administrator	712,456	741,456	741,251	205
Allocated to other departments	(9,061,303)	(9,061,303)	(8,969,915)	(91,388)
	<u>12,472,831</u>	<u>13,258,800</u>	<u>13,284,578</u>	<u>(25,778)</u>

Continued...

WASHTENAW COUNTY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Continued)
General Fund
Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public safety:				
Emergency management	\$ 635,427	\$ 649,966	\$ 648,995	\$ 971
Sheriff	27,391,005	28,995,713	28,995,710	3
Prosecuting attorney	3,452,098	3,642,098	3,640,445	1,653
Total public safety	<u>31,478,530</u>	<u>33,287,777</u>	<u>33,285,150</u>	<u>2,627</u>
Public Works:				
Brownfield redevelopment	69,075	86,575	85,754	821
Public works	363,819	331,459	317,086	14,373
Total public works	<u>432,894</u>	<u>418,034</u>	<u>402,840</u>	<u>15,194</u>
Social Services:				
Children's services	629,084	644,084	643,498	586
Veterans counselor	587,923	603,978	599,979	3,999
Total social services	<u>1,217,007</u>	<u>1,248,062</u>	<u>1,243,477</u>	<u>4,585</u>
Culture - county extension	741,528	720,028	718,738	1,290
Other unallocated expenditures	2,842,322	3,816,036	3,634,853	181,183
Total expenditures	<u>62,967,699</u>	<u>66,934,524</u>	<u>66,750,819</u>	<u>183,705</u>
Revenues over expenditures	<u>18,651,587</u>	<u>16,561,775</u>	<u>15,294,070</u>	<u>(1,267,705)</u>
Other financing sources (uses)				
Transfers in	-	800,000	925,501	125,501
Transfers out	(18,401,587)	(17,111,775)	(16,150,909)	960,866
Total other sources (uses)	<u>(18,401,587)</u>	<u>(16,311,775)</u>	<u>(15,225,408)</u>	<u>1,086,367</u>
Net change in fund balance	250,000	250,000	68,662	(181,338)
Fund balance, beginning of year, restated	<u>7,395,770</u>	<u>7,395,770</u>	<u>7,395,770</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,645,770</u>	<u>\$ 7,645,770</u>	<u>\$ 7,464,432</u>	<u>\$ (181,338)</u>

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

WASHTENAW COUNTY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Community Support & Treatment Services
Special Revenue Fund
Year Ended September 30, 2003

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 16,422,920	\$ 15,951,019	\$ 16,249,725	\$ 298,706
Charges for services	362,805	362,805	352,114	(10,691)
Other	420,157	514,379	469,349	(45,030)
Total revenues	17,205,882	16,828,203	17,071,188	242,985
Expenditures				
Health	17,239,724	17,066,189	17,010,170	56,019
Revenues over (under) expenditures	(33,842)	(237,986)	61,018	299,004
Other financing sources				
Transfers in	293,842	367,986	367,986	-
Net change in fund balance	260,000	130,000	429,004	299,004
Fund deficit, beginning of year	(552,171)	(552,171)	(552,171)	-
Fund deficit, end of year	<u>\$ (292,171)</u>	<u>\$ (422,171)</u>	<u>\$ (123,167)</u>	<u>\$ 299,004</u>

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

WASHTENAW COUNTY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Parks and Recreation Special Revenue Fund
Year Ended December 31, 2003

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,919,671	\$ 7,919,671	\$ 8,179,358	\$ 259,687
Intergovernmental	-	325,000	-	(325,000)
Charges for services	2,634,485	2,634,485	2,955,183	320,698
Investment income	200,000	200,000	339,490	139,490
Other	44,865	254,865	36,889	(217,976)
	<u>10,799,021</u>	<u>11,334,021</u>	<u>11,510,920</u>	<u>176,899</u>
Expenditures				
Culture and recreation	<u>11,616,039</u>	<u>14,805,038</u>	<u>9,658,975</u>	<u>5,146,063</u>
Net change in fund balance	(817,018)	(3,471,017)	1,851,945	5,322,962
Fund balance, beginning of year	<u>9,754,026</u>	<u>9,754,026</u>	<u>9,754,026</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 8,937,008</u></u>	<u><u>\$ 6,283,009</u></u>	<u><u>\$ 11,605,971</u></u>	<u><u>\$ 5,322,962</u></u>

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

WASHTENAW COUNTY
Statement of Net Assets
Proprietary Funds
December 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Delinquent Tax Revolving</u>	<u>Property Foreclosure</u>	<u>Total</u>	<u>Activities - Internal Service Funds</u>
Assets				
Current assets:				
Cash and pooled investments	\$ 9,403,051	\$ 1,151,958	\$ 10,555,009	\$ 1,912,190
Receivables:				
Delinquent taxes	7,354,648	-	7,354,648	-
Interest and collection fees	1,507,344	-	1,507,344	-
Accounts	-	-	-	562,410
Due from other funds	150	-	150	2,306,867
Due from other governments	-	-	-	2,113,643
Inventories	-	-	-	112,692
Prepaid items	-	-	-	1,064,964
Total current assets	<u>18,265,193</u>	<u>1,151,958</u>	<u>19,417,151</u>	<u>8,072,766</u>
Noncurrent assets -				
Capital assets, net	-	-	-	2,603,666
Total assets	<u>18,265,193</u>	<u>1,151,958</u>	<u>19,417,151</u>	<u>10,676,432</u>
Liabilities				
Current liabilities:				
Accounts payable	-	-	-	107,027
Accrued liabilities	-	2,773	2,773	2,124,740
Interest payable	85,007	-	85,007	4,109
Due to other funds	41,150	-	41,150	2,874,251
General obligation notes payable	9,000,000	-	9,000,000	-
Total current liabilities	<u>9,126,157</u>	<u>2,773</u>	<u>9,128,930</u>	<u>5,110,127</u>
Long-term liabilities:				
Accrued compensated absences	-	4,404	4,404	220,799
Deferred revenue	-	-	-	808,878
Advances from other funds	-	-	-	1,130,507
Total long-term liabilities	<u>-</u>	<u>4,404</u>	<u>4,404</u>	<u>2,160,184</u>
Total liabilities	<u>9,126,157</u>	<u>7,177</u>	<u>9,133,334</u>	<u>7,270,311</u>
Net assets				
Invested in capital assets, net of related debt	-	-	-	2,603,666
Restricted for debt service	9,000,000	-	9,000,000	-
Unrestricted	139,036	1,144,781	1,283,817	802,455
	<u>\$ 9,139,036</u>	<u>\$ 1,144,781</u>	<u>\$ 10,283,817</u>	<u>\$ 3,406,121</u>

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

WASHTENAW COUNTY
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
Year Ended December 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Delinquent Tax Revolving</u>	<u>Property Foreclosure</u>	<u>Total</u>	
Operating revenues				
Charges for services	\$ 920	\$ 646,920	\$ 647,840	\$ 28,143,143
Investment income	1,762,635	-	1,762,635	-
Collection fees on taxes	800,438	-	800,438	-
	<u>2,563,993</u>	<u>646,920</u>	<u>3,210,913</u>	<u>28,143,143</u>
Operating expenses				
Personnel services	-	71,769	71,769	3,151,932
Contractual services	10,245	80,158	90,403	940,154
Supplies	-	35,354	35,354	1,281,039
Occupancy	-	-	-	2,038,265
Telephone	-	198	198	809,859
Equipment repair and rental	-	2,533	2,533	895,929
Building repair and rental	-	-	-	267,786
Benefits and insurance premiums	-	-	-	16,853,839
Other	-	38,586	38,586	899,619
Depreciation	-	-	-	809,077
	<u>10,245</u>	<u>228,598</u>	<u>238,843</u>	<u>27,947,499</u>
Operating income	<u>2,553,748</u>	<u>418,322</u>	<u>2,972,070</u>	<u>195,644</u>
Non-operating income (expense)				
Investment earnings (loss)	(100,597)	25,898	(74,699)	142,435
Interest expense and fiscal charges	(169,801)	-	(169,801)	(33,780)
Loss on disposal of equipment	-	-	-	(28,861)
	<u>(270,398)</u>	<u>25,898</u>	<u>(244,500)</u>	<u>79,794</u>
Income before transfers	2,283,350	444,220	2,727,570	275,438
Transfers in	250,000	-	250,000	150,349
Transfers out	<u>(2,596,194)</u>	<u>(100,000)</u>	<u>(2,696,194)</u>	<u>(920,818)</u>
Change in net assets	(62,844)	344,220	281,376	(495,031)
Net assets, beginning of year	<u>9,201,880</u>	<u>800,561</u>	<u>10,002,441</u>	<u>3,901,152</u>
Net assets, end of year	<u>\$ 9,139,036</u>	<u>\$ 1,144,781</u>	<u>\$ 10,283,817</u>	<u>\$ 3,406,121</u>

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

WASHTENAW COUNTY
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Delinquent Tax Revolving</u>	<u>Property Foreclosure</u>	<u>Total</u>	
Cash flows from operating activities				
Cash received from customers	\$ 2,427,338	\$ 646,921	\$ 3,074,259	\$ 2,037,311
Cash received from interfund services	41,000	-	41,000	27,986,688
Cash payments to employees	-	(65,789)	(65,789)	(3,260,502)
Cash payments to suppliers	(10,245)	(156,830)	(167,075)	(25,148,583)
Cash payments for interfund services	-	-	-	(446,589)
	<u>2,458,093</u>	<u>424,302</u>	<u>2,882,395</u>	<u>1,168,325</u>
Net cash provided by operating activities				
Cash flows from noncapital financing activities				
Transfers in	250,000	-	250,000	150,349
Transfers out	(2,596,194)	(100,000)	(2,696,194)	(920,818)
Proceeds from issuing long term debt	9,000,000	-	9,000,000	-
Principal paid on long term debt	(6,000,000)	-	(6,000,000)	-
Interest paid on long term debt	(166,309)	-	(166,309)	-
	<u>487,497</u>	<u>(100,000)</u>	<u>387,497</u>	<u>(770,469)</u>
Net cash provided by (used in) noncapital financing activities				
Cash flows from capital and related financing activities				
Advances from other funds	-	-	-	(225,466)
Interest paid on capital lease obligations	-	-	-	(15,824)
Proceeds from sale of equipment	-	-	-	51,018
Payments for equipment acquisitions	-	-	-	(830,193)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,020,465)</u>
Net cash provided by (used in) capital and related financing activities				
Cash flows from investing activities				
Investment earnings (loss)	(100,597)	25,898	(74,699)	124,478
	<u>2,844,993</u>	<u>350,200</u>	<u>3,195,193</u>	<u>(498,131)</u>
Net increase(decrease) in cash and cash equivalents				
Cash and cash equivalents, beginning of year	6,558,058	801,758	7,359,816	2,410,321
	<u>\$ 9,403,051</u>	<u>\$ 1,151,958</u>	<u>\$ 10,555,009</u>	<u>\$ 1,912,190</u>
Cash and cash equivalents, end of year				

Continued...

WASHTENAW COUNTY
Statement of Cash Flows (concluded)
Proprietary Funds
Year Ended December 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Delinquent Tax Revolving</u>	<u>Property Foreclosure</u>	<u>Total</u>	
	Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 2,553,748	\$ 418,322	\$ 2,972,070	\$ 195,644
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	-	809,077
Changes in assets and liabilities:				
Receivables	(136,655)	-	(136,655)	233,511
Due from other funds	(150)	-	(150)	(117,266)
Due from other agencies and governments	-	-	-	1,122,944
Inventories	-	-	-	14,728
Prepaid items	-	-	-	(228,914)
Accounts payable	-	-	-	(116,925)
Accrued liabilities	-	5,980	5,980	265,296
Due to other funds	41,150	-	41,150	341,163
Deferred revenue	-	-	-	(1,350,933)
Net cash provided by operating activities	<u>\$ 2,458,093</u>	<u>\$ 424,302</u>	<u>\$ 2,882,395</u>	<u>\$ 1,168,325</u>

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

WASHTENAW COUNTY
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Pension and Other Employee Benefit Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and pooled investments	\$ 708,829	\$ 17,554,558
Investments, at fair value:		
Mutual funds	39,224,012	-
Mortgages and asset backed securities	2,365,708	-
Common stocks	119,238,918	-
United States treasury strips	7,364,790	-
Other United States treasury securities	1,666,984	-
Other United States government securities	26,592,888	-
Corporate bonds and notes	14,173,324	-
Short-term investments	8,943,421	-
Accounts receivable	1,083	-
Accrued interest and dividends	513,020	-
Due from other governments	-	328,340
	<u> </u>	<u> </u>
Total assets	<u>220,792,977</u>	<u>\$ 17,882,898</u>
Liabilities		
Accounts payable	226,587	\$ 6,529,652
Accrued liabilities	478,449	-
Due to other governments	-	11,353,246
	<u> </u>	<u> </u>
Total liabilities	<u>705,036</u>	<u>\$ 17,882,898</u>
Net assets		
Held in trust for pension and other employee healthcare benefits	<u>\$ 220,087,941</u>	

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

WASHTENAW COUNTY
Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
Year Ended December 31, 2003

Additions

Investment income:

From investing activities:

Net appreciation in fair value of investments	\$ 29,418,117
Interest and dividends	6,894,420
Investment management fees	(745,945)
Net income from investing activities	<u>35,566,592</u>

From securities lending activities:

Gross earnings	128,921
Borrower rebates	(105,591)
Securities fees	(9,287)
Net income from securities lending activities	<u>14,043</u>

Total net investment income	<u>35,580,635</u>
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Contributions:

Employer	9,545,720
Employees	3,462,695

Total contributions	<u>13,008,415</u>
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Other additions

5,631

Total additions	<u>48,594,681</u>
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Deductions

Participant benefits	18,191,409
Administrative expenses	414,711

Total deductions	<u>18,606,120</u>
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Net additions (deductions) to net assets held in trust

Employees' pension benefits	\$ 25,766,516
Postemployment healthcare benefits	4,552,025
Other employee benefits	(329,980)
	<u>29,988,561</u>

Total net additions to net assets held in trust	29,988,561
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Net assets held in trust for benefits, beginning of year

190,099,380

Net assets held in trust for benefits, end of year

Restricted for employees' pension benefits	190,671,683
Restricted for employees' postemployment healthcare benefits	29,253,485
Restricted for other employees' benefits	162,773
	<u>220,087,941</u>

Total net assets held in trust for benefits, end of year	<u>\$ 220,087,941</u>
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The accompanying notes are an integral part of these financial statements.

WASHTENAW COUNTY
Combining Statement of Net Assets
Component Units
December 31, 2003

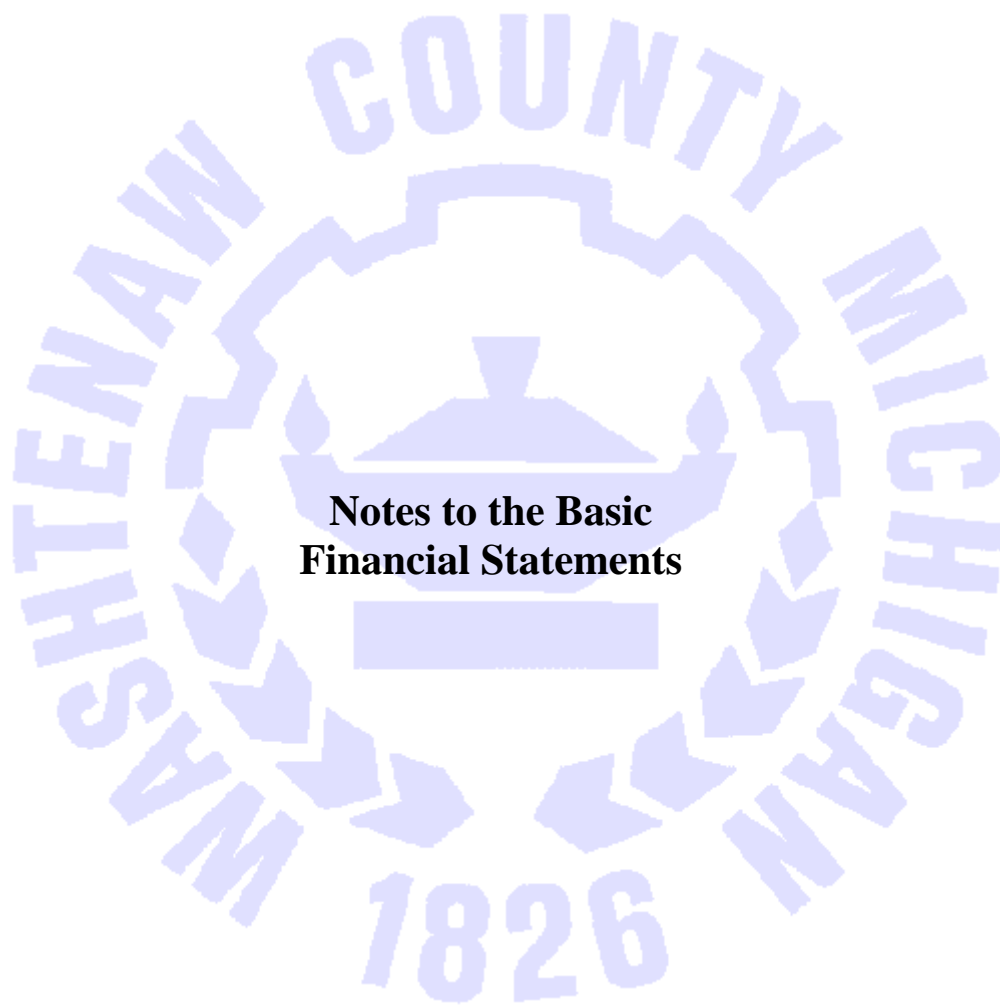
	Department of Public Works Projects	Drain Commissioner	Hazardous Materials Response Authority	Road Commission	Total
Assets					
Cash and pooled investments	\$ 3,546,179	\$ 8,299,934	\$ 102,953	\$ 5,092,024	\$ 17,041,090
Receivables, net	44,172,310	4,790,935	-	4,214,351	53,177,596
Prepaid items and other assets	190,398	10,522	-	920,495	1,121,415
Capital assets not being depreciated	-	676,685	-	5,081,221	5,757,906
Capital assets being depreciated	-	13,141,114	-	53,152,891	66,294,005
Total assets	47,908,887	26,919,190	102,953	68,460,982	143,392,012
Liabilities					
Accounts payable and accrued expenses	218,347	5,192,814	-	3,573,557	8,984,718
Accrued interest payable	335,181	43,530	-	-	378,711
Deferred revenue	-	502,901	-	-	502,901
Long-term liabilities:					
Due within one year	4,550,000	761,996	-	765,000	6,076,996
Due in more than one year	38,840,137	3,462,850	-	6,998,265	49,301,252
Total liabilities	43,943,665	9,964,091	-	11,336,822	65,244,578
Net assets					
Invested in capital assets, net of related debt	-	9,592,953	-	51,164,112	60,757,065
Restricted for:					
Debt service	266,074	1,283,068	-	-	1,549,142
Acquisition/construction of capital assets	3,699,148	3,146,287	-	-	6,845,435
Unrestricted	-	2,932,791	102,953	5,960,048	8,995,792
Total net assets	\$ 3,965,222	\$ 16,955,099	\$ 102,953	\$ 57,124,160	\$ 78,147,434

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

WASHTENAW COUNTY
Combining Statement of Activities
Component Units
Year Ended December 31, 2003

	Department of Public Works Projects	Drain Commissioner	Hazardous Materials Response Authority	Road Commission	Total
Expenses					
Public safety	\$ -	\$ -	\$ 62,866	\$ -	\$ 62,866
Public works	2,543,263	1,118,423	-	-	3,661,686
Highways and streets	-	-	-	17,158,470	17,158,470
Total expenses	<u>2,543,263</u>	<u>1,118,423</u>	<u>62,866</u>	<u>17,158,470</u>	<u>20,883,022</u>
Program revenues					
Charges for services	-	259,125	30,726	-	289,851
Operating grants and contributions	-	-	18,735	29,724,845	29,743,580
Capital grants and contributions	3,893,456	700,307	-	-	4,593,763
Total program revenues	<u>3,893,456</u>	<u>959,432</u>	<u>49,461</u>	<u>29,724,845</u>	<u>34,627,194</u>
Net program (expense) revenue	<u>1,350,193</u>	<u>(158,991)</u>	<u>(13,405)</u>	<u>12,566,375</u>	<u>13,744,172</u>
General revenues					
Unrestricted investment earnings	88,684	196,940	2,278	176,229	464,131
Gain on sale of capital assets	-	-	-	130,024	130,024
Total general revenues	<u>88,684</u>	<u>196,940</u>	<u>2,278</u>	<u>306,253</u>	<u>594,155</u>
Change in net assets	1,438,877	37,949	(11,127)	12,872,628	14,338,327
Net assets, beginning of year	<u>2,526,345</u>	<u>16,917,150</u>	<u>114,080</u>	<u>44,251,532</u>	<u>63,809,107</u>
Net assets, end of year	<u><u>\$ 3,965,222</u></u>	<u><u>\$ 16,955,099</u></u>	<u><u>\$ 102,953</u></u>	<u><u>\$ 57,124,160</u></u>	<u><u>\$ 78,147,434</u></u>

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



**Notes to the Basic
Financial Statements**



WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

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WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Washtenaw County, Michigan (the “County” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the County’s accounting policies are described below.

A. Reporting Entity

Washtenaw County is a municipal corporation governed by an 11-member commission and administered by an appointed county administrator. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government’s operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The blended and discretely presented component units have December 31 year ends.

Blended Component Unit

The *Washtenaw County Building Authority* is governed by a five-member board appointed by the Board of Commissioners. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County’s public buildings.

Discretely Presented Component Units

The *Washtenaw County Department of Public Works Projects* is managed by the Board of Public Works, a seven-member board appointed by the County Board of Commissioners. The Board of Public Works is responsible for administering various public works construction projects and the associated debt service funds on behalf of local units of government within the County under the provisions of Act 185, Public Acts of 1957, as amended. All of the Board of Public Works’ contractual agreements including bond issuances require County Board of Commissioners approval. The full faith and credit of the County is given for the long-term debt of these projects.

Each of the drainage districts included in the financial statements of the *Washtenaw County Drain Commissioner* are separate legal entities with the power to contract; to sue and to be sued; and to hold, manage and dispose of real and personal property. The Statutory Drain Board consists of the Drain Commissioner, the Chair of the County Board of Commissioners, and one other member of the Board of Commissioners. The Drain Commissioner is responsible for the construction and maintenance of storm drains within the County. The full faith and credit of the County is often given for the long-term debt of the drainage districts.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The *Washtenaw County Hazardous Material Response Team Authority (WCHMRTA)* is managed by an eleven-member board composed of a representative from each of the five enabling jurisdictions (Washtenaw County, City of Ann Arbor, City of Ypsilanti, Pittsfield Township and Ypsilanti Township) appointed by their governing bodies, three representatives appointed by the Mutual Aid Association, and one member each from the Criminal Justice Association, Washtenaw County Public Health Department, and Huron Valley Ambulance. A Technical Advisory Committee supports the Board. The WCHMRTA was formed to develop and manage a county wide hazardous material response team. It has been fully operational since December 28, 1999. The Washtenaw County Board of Commissioners approves the operating budget and the Authority has delegated fiscal powers to the County.

The *Washtenaw County Brownfield Redevelopment Authority (WCBRA)* is governed by a nine-member board appointed by the Washtenaw County Board of Commissioners. Its purpose is to encourage and support the redevelopment of under-utilized and environmentally contaminated properties in partnership with member communities in Washtenaw County. The County Board of Commissioners approves WCBRA's operating budget; WCBRA has delegated fiscal powers to the County. The WCBRA had no financial activity during 2003.

The *Washtenaw County Road Commission* is responsible for the maintenance and construction of the county road system in Washtenaw County. It is governed by a three-member board appointed by the County Board of Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. The Road Commission deposits its receipts with and has investments through the County.

Complete financial statements for each of the discretely presented component units can be obtained directly from their respective administrative offices, as follows:

Department of Public Works	Drain Commissioner	WCHMRTA	Road Commission
705 North Zeeb Road	705 North Zeeb Road	220 North Main Street	555 North Zeeb Road
Ann Arbor, MI 48107	Ann Arbor, MI 48107	Ann Arbor, MI 48107	Ann Arbor, MI 48106

Funds With Another Year End

The Community Support & Treatment Services Fund and Public Health Fund (special revenue funds of the County) are reported on a September 30 year end in order to enhance the value of this document to certain readers and users.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. So agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Property taxes, state revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *community support and treatment services fund* accounts for the activities of delivering an array of mental health services to residents.

The *parks and recreation fund* accounts for the operations of the County-owned parks and recreational facilities and to account for the millage approved by County voters for the purchase of natural areas within the County.

The *building authority fund* accounts for the construction or purchase of major capital facilities.

The *county capital projects fund* accounts for renovation/small construction projects performed on County facilities and the purchase of capital equipment.

The government reports the following major proprietary funds:

The *delinquent tax revolving fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing units within the County and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

The *property foreclosure fund* accounts for the expenses incurred under Michigan Public Act 123 for the notification, forfeiture, foreclosure, and sale of properties with delinquent property taxes. It also accounts for revenues from fees charged to the properties and for the proceeds from the sale of the properties.

Additionally, the government reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds not being financed by proprietary funds.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The *internal service funds* account for operations that provide services (such as the County's telephone system, building repair and maintenance, self-insurance, fleet and equipment management) to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis.

The *agency funds* account for assets held for other governments in an agency capacity.

The *pension and other employee benefit trust funds* account for the activities of the Employees Retirement System, Money Purchase Pension Plan, and Voluntary Employees Beneficiary Association, which accumulate resources for pension and health benefit payments for qualified employees. The trust funds also include the Unemployment and Severance funds, which accumulate resources for unemployment and severance benefit payments, respectively, to qualified employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax fund and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The County Treasurer maintains a cash management pool that is used by all funds and component units of the government, except for the pension and other employee benefit trust funds. In addition to their participation in the cash management pool, certain funds and component units also have separate checking accounts. The cash management pool has the general characteristics of a demand deposit account in that deposits and withdrawals may be made at any time without prior notice or penalty. Accordingly, each fund's portion of this pool, along with any amounts in separate demand deposit accounts, are reported as "cash and pooled investments."

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments, cash management pool balances and non-pool investments with original maturities of three months or less.

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.

State statutes authorize the County to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

3. Inventories and Prepaid Items

Inventories in the proprietary funds are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. For the Road Commission component unit, inventory is valued at average cost.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. For the County, infrastructure exists in the Drain Commissioner and Road Commission component units. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government and component units, except for the Road Commission, are depreciated using the straight-line method over the useful life of the assets as follows:

Buildings and improvements	50 years
Drain infrastructure	50 years
Equipment (computer, office and vehicles)	2.5 to 10 years

For the Road Commission component unit, capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Infrastructure	12 to 50 years

5. Compensated Absences

The County's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick pay are accrued when incurred in the government-wide and proprietary funds financial statements. A liability is reported in governmental funds only if these amounts have matured, for example, as a result of employee resignations or retirements.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. Budgets are not required for debt service and capital projects funds. All annual appropriations lapse at year-end.

The County utilizes a biennial budget to improve the efficiency of the overall budgeting process. The first year of the biennial budget is prepared for approval and adoption, and the second year is based on information currently available. The second year budget is amended during the first year to reflect necessary revisions as economic conditions warrant. Necessary changes are brought back to the Board of Commissioners prior to the beginning of the fiscal year for final adoption.

The County Administrator submits a proposed budget to the Board of Commissioners before September 15. The budget includes proposed expenditures and the means of financing them. Public hearings are held to obtain taxpayer comments. The budget is adopted no later than December 31 through a Board of Commissioners resolution.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The appropriated budget is prepared by fund, function and department. The County's department heads may make limited transfers of appropriations within a department. Transfers of appropriations between departments require approval by the Board of Commissioners or County Administrator, depending on the dollar value of the transfers. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level for the General Fund and the function level for special revenue funds. Supplemental budgetary appropriations were made during the year, but were not material for purposes of these disclosures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances are recorded in the amount of the outstanding purchase orders and contracts at the time the purchase orders and contracts are issued. The encumbrances are liquidated when the goods or services are received. Unliquidated encumbrances at the end of the year are not carried forward to the next year.

B. Excess of Expenditures over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on a department level basis for the General Fund and the function level for the special revenue funds.

Excess of expenditures over appropriations in individual funds are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
Special Revenue funds:			
Child Care - transfers out	\$ 14,936	\$ 15,373	\$ 437
Public Works Solid Waste Program - public works	710,458	726,100	15,642
E-911 - public safety	1,136,000	1,160,867	24,867
E-911 - transfers out	895,000	1,032,780	137,780
Friend of the Court - judicial	4,229,992	4,350,972	120,980
Head Start - transfers out	53,921	197,394	143,473
Inmate Concessions - public safety	270,972	290,455	19,483
Other Special Revenue Funds - judicial	1,044,852	1,201,480	156,628
Public Health - health	8,941,019	9,105,898	164,879
Sheriff's Grants - public safety	402,795	593,810	191,015

These over-expenditures were funded by available fund balance.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

C. Deficit Fund Equity

The County has an accumulated deficit in the following fund:

Special Revenue Fund -	
Community Support & Treatment Services	\$ 123,167

A plan to eliminate the above deficit over a ten-year period was implemented during 1998.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

A reconciliation of cash, pooled investments and investments as shown in the basic financial statements to the County's deposits and investments is as follows:

	Statement of Net Assets			
	Primary Government	Component Units	Fiduciary Funds	Total
Financial Statements:				
Cash and pooled investments	\$ 47,538,978	\$ 17,041,090	\$ 18,263,387	\$ 82,843,455
Investments	-	-	219,570,045	219,570,045
	\$ 47,538,978	\$ 17,041,090	\$ 237,833,432	\$ 302,413,500

Notes to Financial Statements:

Deposits	\$ 28,525,169
Investments	276,613,585
Cash on hand	41,971
Net effect of funds with different fiscal year ends	(2,767,225)
	\$ 302,413,500

Due to the nature of the County's cash management pool, it is not possible to segregate deposits and investments between the primary government and the component units. The same is true for FDIC insurance coverage. Accordingly, only reporting entity totals are shown for the deposits and investments, as well as the FDIC coverage.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Deposits

At year end, the carrying amount of the County's deposits (including certificates of deposit of \$18,000,000) was \$28,525,169 and the bank balance was \$30,689,243. Of the bank balance, \$716,244 was covered by federal depository insurance and \$29,972,999 was neither insured nor collateralized.

Investments and Securities Lending

The County's investments are categorized below 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 County or its agent in the County'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 County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the County's name. The pension and other employee benefit trust funds own 100% of the investments in Category 3.

A contract approved by the Washtenaw County Employees' Retirement System (the System) 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

NOTES TO FINANCIAL STATEMENTS

At year end, the government's investment balances were as follows:

<u>Investment</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Commercial paper	\$ 9,003,960	\$ 2,993,280	\$ -	\$ 11,997,240
Mortgages and asset backed securities	-	-	2,365,708	2,365,708
Common stocks:				
Not on securities loan	-	-	114,934,661	114,934,661
On securities loan	-	-	4,304,257	4,304,257
United States Treasury strips	-	-	7,364,790	7,364,790
Other United States Treasury securities	-	-	1,666,984	1,666,984
Other United States Government securities:				
Not on securities loan	45,046,300	-	20,058,941	65,105,241
On securities loan	-	-	6,533,947	6,533,947
Corporate bonds:				
Not on securities loan	-	-	12,461,658	12,461,658
On securities loan	-	-	1,711,666	1,711,666
Short-term investments	-	-	<u>8,943,421</u>	<u>8,943,421</u>
	<u>\$ 54,050,260</u>	<u>\$ 2,993,280</u>	<u>\$ 180,346,033</u>	237,389,573
Noncategorized - mutual funds				<u>39,224,012</u>
				<u>\$ 276,613,585</u>

B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 57,803,400
Accounts	1,309,986
Leases	4,127,883
Intergovernmental	11,455,064
Less: allowance for uncollectible accounts	<u>(109,916)</u>
	<u>\$ 74,586,417</u>

The only amount not expected to be collected within one year is \$3,506,500 of leases receivable.

Receivables for the business-type activities are composed entirely of amounts due from taxpayers for delinquent taxes and related interest and collections fees.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$ 50,032,596	\$ -
Property taxes receivable (Parks and Recreation Fund)	7,771,911	-
Grant drawdowns prior to meeting all eligibility requirements	-	725,461
	\$ 57,804,507	\$ 725,461

C. Capital Assets

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 9,093,704	\$ 3,173,724	\$ -	\$ 12,267,428
Construction in progress	4,476,869	-	(4,476,869)	-
Total capital assets, not being depreciated	13,570,573	3,173,724	(4,476,869)	12,267,428
Capital assets, being depreciated:				
Buildings	85,814,475	14,935,619	(282,391)	100,467,703
Improvement other than buildings	10,632,189	321,238	-	10,953,427
Machinery and equipment	13,700,700	2,559,984	(1,543,605)	14,717,079
Total capital assets being depreciated	110,147,364	17,816,841	(1,825,996)	126,138,209
Less accumulated depreciation for:				
Buildings	(22,424,246)	(1,829,992)	-	(24,254,238)
Improvements other than buildings	(3,000,700)	(208,117)	-	(3,208,817)
Machinery and equipment	(7,078,758)	(2,157,164)	1,311,450	(7,924,472)
Total accumulated depreciation	(32,503,704)	(4,195,273)	1,311,450	(35,387,527)
Total capital assets being depreciated, net	77,643,660	13,621,568	(514,546)	90,750,682
Governmental activities capital assets, net	\$ 91,214,233	\$ 16,795,292	\$ (4,991,415)	\$ 103,018,110

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:

Legislative	\$ 17,030
Judicial	235,941
General government	1,617,246
Public safety	578,344
Health	176,531
Social services	348,089
Culture and recreation	413,015
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	809,077
Total depreciation expense-governmental activities	\$ 4,195,273

Discretely Presented Component Units

Drain Commissioner. Capital asset activity for the Drain Commissioner for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated-				
Construction in progress	\$ 350,601	\$ 700,763	\$ (374,679)	\$ 676,685
Capital assets, being depreciated-				
Infrastructure	18,026,187	374,679	-	18,400,866
Less accumulated depreciation for-				
Infrastructure	(4,899,169)	(360,583)	-	(5,259,752)
Total capital assets being depreciated, net	13,127,018	14,096	-	13,141,114
Drain Commissioner capital assets, net	\$13,477,619	\$ 714,859	\$ (374,679)	\$13,817,799

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Road Commission. The Road Commission has elected to implement the general provisions of GASB Statement Number 34 with the exception of the retroactive reporting of infrastructure. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the Road Commission's 2007 fiscal year. The Road Commission plans to implement the retroactive provisions for infrastructure assets (using the modified approach) in the fiscal year ending December 31, 2007.

Capital asset activity for the Road Commission for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated -				
Land and land improvements	\$ 3,761,387	\$ 1,319,834	\$ -	\$ 5,081,221
Capital assets, being depreciated:				
Buildings and storage bins	12,563,793	201,325	-	12,765,118
Road equipment	11,711,151	1,252,742	(1,434,356)	11,529,537
Other equipment	1,596,689	94,846	-	1,691,535
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	<u>27,484,661</u>	<u>15,250,457</u>	<u>-</u>	<u>42,735,118</u>
Total capital assets being depreciated	<u>53,492,680</u>	<u>16,799,370</u>	<u>(1,434,356)</u>	<u>68,857,694</u>
Less accumulated depreciation for:				
Buildings and storage bins	(2,322,095)	(308,143)	-	(2,630,238)
Road equipment	(9,294,236)	(988,850)	1,430,241	(8,852,845)
Other equipment	(819,768)	(145,188)	-	(964,956)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	<u>(1,204,442)</u>	<u>(1,915,936)</u>	<u>-</u>	<u>(3,120,378)</u>
Total accumulated depreciation	<u>(13,776,927)</u>	<u>(3,358,117)</u>	<u>1,430,241</u>	<u>(15,704,803)</u>
Total capital assets being depreciated, net	<u>39,715,753</u>	<u>13,441,253</u>	<u>(4,115)</u>	<u>53,152,891</u>
Road Commission capital assets, net	<u>\$43,477,140</u>	<u>\$14,761,087</u>	<u>\$ (4,115)</u>	<u>\$58,234,112</u>

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

D. Payables

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts	\$	452,571
Retainage		162,003
Wages, fringe benefits and other accrued liabilities		8,906,503
Intergovernmental		578,990
		\$10,100,067

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2003, is as follows:

Due to/from other funds	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 558,294	\$ 1,890,602
Community Support & Treatment Services	40,831	13,532
Parks and Recreation	1,395	3,745
County Capital Projects	1,893,289	852,779
Delinquent Tax Revolving	150	41,150
Nonmajor governmental funds	2,451,141	1,553,992
Internal service funds	2,306,867	2,874,251
Total per financial statements	7,251,967	7,230,051
Adjustments for September 30 year end funds	(21,916)	-
Total	\$ 7,230,051	\$ 7,230,051
 Advances to/from other funds		
General Fund	\$ 1,130,507	\$ -
Internal service funds	-	1,130,507
Total	\$ 1,130,507	\$ 1,130,507
 Interfund receivable/payable		
County Capital Projects	\$ 3,864,628	\$ -
Nonmajor governmental funds	-	3,864,628
Total	\$ 3,864,628	\$ 3,864,628

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The above timing difference of \$21,916 between funds with calendar and fiscal year ends results in an uneliminated internal balance in the statement of net assets.

The County reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advances from the General Fund and the interfund receivable in the County Capital Projects fund were executed in order to assist the cash position (cash flow) of the respective recipient funds.

A summary of interfund transfers for the year ended December 31, 2003, is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 925,501	\$ 16,150,909
Community Support & Treatment Services	367,986	-
County Capital Projects	5,149,332	3,744,446
Delinquent Tax Revolving	250,000	2,596,194
Property Foreclosure	-	100,000
Nonmajor governmental funds	17,963,542	1,278,072
Internal service funds	150,349	920,818
Total per financial statements	24,806,710	24,790,439
Adjustments for September 30 year end funds	(16,271)	-
Total	<u>\$ 24,790,439</u>	<u>\$ 24,790,439</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (3) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

Total transfers in for the primary government as shown in the accompanying financial statements were \$24,806,710 and total transfers out were \$24,790,439. The difference between these amounts, \$16,271, was attributable to transactions with the Public Health and Community Support & Treatment Services funds, which are reported on a September 30 year-end. As such, this is reported as an uneliminated internal balance in the statement of activities.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

F. Leases

Capital Leases – The County has acquired certain computer equipment under capital leases. The following is a schedule of future minimum lease payments under these capital leases, together with the present value of the minimum lease payments, as of December 31, 2003:

2004	\$ 219,983
2005	<u>139,800</u>
Total minimum lease payments	359,783
Less amount representing interest	<u>13,464</u>
Present value of minimum lease payment	<u>\$ 346,319</u>

Operating Leases - The County has commitments under operating lease agreements which provide for annual minimum lease payments as follows:

2004	\$ 411,328
2005	232,702
2006	<u>101,778</u>
Total	<u>\$ 745,808</u>

Rental expense for all operating leases aggregated \$385,352 for the year ended December 31, 2003.

Lessor Leases – The County has leased certain land to Huron Valley Ambulance, Inc. (HVA) under a capital lease agreement. HVA has commitments under the lease which provide for annual minimum lease payments of \$51,802 during 2003 and continuing for the next six years. At the end of the lease, the County is required to quit claim deed the land to HVA.

G. Long-term Debt

Primary Government

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$57,990,000. The County issues general obligation notes to provide monies for the purchase of the delinquent taxes receivable from local units of government. The original amount of general obligation notes was \$9,000,000.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. Bonds are generally issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. Notes are generally issued with a six-month due maturity. General obligation bonds and notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.0 – 6.0%	\$ 26,450,000
Governmental activities - refunding	4.0 - 6.25%	8,585,000
Business-type activities	1.75%	9,000,000
		<u><u>\$ 44,035,000</u></u>

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 3,400,000	\$ 1,616,678	\$ 9,000,000	\$ 157,500
2005	2,885,000	1,330,400	-	-
2006	2,590,000	1,228,738	-	-
2007	2,405,000	1,132,949	-	-
2008	2,465,000	1,046,849	-	-
2009-2013	13,640,000	3,754,751	-	-
2014-2018	5,725,000	1,425,037	-	-
2019-2022	1,925,000	158,249	-	-
Total	<u><u>\$ 35,035,000</u></u>	<u><u>\$ 11,693,651</u></u>	<u><u>\$ 9,000,000</u></u>	<u><u>\$ 157,500</u></u>

In addition to general obligation bonds and notes, the County has an interest-free loan from the Michigan Economic Development Corporation in the amount of \$292,133. The borrowed monies were used in conjunction with funds received under a federal Community Development Block Grant to fund renovation work in Hanger 1 at Willow Run Airport. The loan will be repaid in 60 quarterly installments of \$4,869 beginning in the first quarter of 2005 and ending in the fourth quarter of 2019. Willow Run Airport Authority will be reimbursing the County for the debt service payments made by the County.

Advance Refundings. During the year, the County issued \$8,705,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$8,240,000 bonds. As a result, the refunding bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$508,421. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$817,843 and resulted in an economic gain of \$725,118.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Component Units

Department of Public Works Projects. General obligation bonds are issued by the County to finance construction projects managed and administered by the Department of Public Works. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$75,952,279.

These bonds are direct obligations, and pledge the full faith and credit, of the County and the associated municipalities and/or authorities. The bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year through May 1, 2022 and bear interest at varying rates from 2% to 7.625%. Detailed information regarding bonds currently outstanding and annual debt service requirements to maturity for each bond issue is presented in the Supplementary Information section of the Department of Public Works Projects report. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.0 - 7.625%	\$ 32,452,279
Governmental activities - refunding	2.75 - 6.75%	<u>11,125,000</u>
		<u>\$ 43,577,279</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 4,550,000	\$ 1,888,726
2005	3,440,000	1,699,519
2006	3,140,000	1,548,457
2007	2,630,000	1,423,408
2008	2,200,000	1,322,870
2009-2013	11,955,000	5,043,326
2014-2018	10,850,000	2,350,431
2019-2022	4,812,279	401,398
Total	<u>\$ 43,577,279</u>	<u>\$ 15,678,135</u>

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Drain Commissioner. General obligation drain improvement bonds and notes are issued by the County to finance certain drainage district construction projects. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds and notes issued in prior years was \$6,913,038. During the year general obligation notes totaling \$280,000 were issued.

These bonds and notes are direct obligations, and pledge the full faith and credit of the County and the respective drainage districts. The bonds are generally issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.37 - 6.8%	\$4,230,696

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 761,996	\$ 186,778
2005	698,245	151,841
2006	687,745	120,774
2007	542,300	91,035
2008	381,010	66,652
2009-2013	1,009,400	127,432
2014-2015	150,000	7,500
Total	\$ 4,230,696	\$ 752,012

Road Commission. The Road Commission has special assessment bonds, capital leases, and notes outstanding. The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed for the cost of the improvement. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Road Commission must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The amount of receivables delinquent at December 31, 2003 is not significant.

The Road Commission has a lease payable to the Washtenaw County Building Authority for the debt service costs related to bonds that were sold for the construction of Yard 2. The lease agreement terminates with the retirement of the bond issue in September 2013. The annual lease payment is equal to the related bond principal and interest.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The 2000 and 2002 Michigan Transportation Fund notes were issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The monies from these notes were used to fund improvements on county highways in Scio Township and Ypsilanti Township. The following is a summary of debt outstanding of the Road Commission as of December 31, 2003:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.75 - 6.75%	\$ 7,070,000

Annual principal and interest requirements to service all debt outstanding as of December 31, 2003, are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 765,000	\$ 321,692
2005	765,000	285,152
2006	720,000	253,665
2007	745,000	222,192
2008	745,000	188,847
2009-2013	3,330,000	443,565
Total	\$ 7,070,000	\$ 1,715,113

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Debt

Long-term liability activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
Loan from State of Michigan	\$ 292,133	\$ -	\$ -	\$ 292,133	\$ -
Capital leases	685,608	-	(339,289)	346,319	209,446
General obligation bonds	38,175,000	8,705,000	(11,845,000)	35,035,000	3,400,000
Deferred amounts for:					
Issuance discounts	(50,000)	-	2,500	(47,500)	-
Issuance premiums	-	151,271	(13,752)	137,519	-
Refunding loss	-	(508,421)	46,221	(462,200)	-
Compensated absences	9,672,776	748,301	-	10,421,077	1,418,555
	<u>\$ 48,775,517</u>	<u>\$ 9,096,151</u>	<u>\$ (12,149,320)</u>	<u>\$ 45,722,348</u>	<u>\$ 5,028,001</u>
Business-type activities:					
Delinquent Tax -					
General obligation notes	\$ 6,000,000	\$ 9,000,000	\$ (6,000,000)	\$ 9,000,000	\$ 9,000,000
Compensated absences	-	4,404	-	4,404	899
	<u>\$ 6,000,000</u>	<u>\$ 9,004,404</u>	<u>\$ (6,000,000)</u>	<u>\$ 9,004,404</u>	<u>\$ 9,000,899</u>
Component Units					
Department of Public Works Projects:					
General obligation bonds	\$ 47,902,279	\$ -	\$ (4,325,000)	\$ 43,577,279	\$ 4,550,000
Less deferred amounts for issuance discounts	(197,455)	-	10,313	(187,142)	-
	<u>\$ 47,704,824</u>	<u>\$ -</u>	<u>\$ (4,314,687)</u>	<u>\$ 43,390,137</u>	<u>\$ 4,550,000</u>
Drain Commissioner:					
General obligation bonds	\$ 3,620,000	\$ -	\$ (550,000)	\$ 3,070,000	\$ 450,000
Notes payable	1,070,094	280,000	(189,398)	1,160,696	311,996
Less deferred amounts for issuance discounts	(6,630)	-	780	(5,850)	-
	<u>\$ 4,683,464</u>	<u>\$ 280,000</u>	<u>\$ (738,618)</u>	<u>\$ 4,224,846</u>	<u>\$ 761,996</u>
Road Commission:					
Michigan Transportation Fund Notes	\$ 3,665,000	\$ -	\$ (395,000)	\$ 3,270,000	\$ 395,000
Special assessment bonds	210,000	-	(70,000)	140,000	70,000
Lease payable	3,935,000	-	(275,000)	3,660,000	300,000
Compensated absences	733,947	-	(40,682)	693,265	-
	<u>\$ 8,543,947</u>	<u>\$ -</u>	<u>\$ (780,682)</u>	<u>\$ 7,763,265</u>	<u>\$ 765,000</u>

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$220,799 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund.

IV. OTHER INFORMATION

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has established internal service funds to account for and finance its uninsured risks of loss. Under this program, the internal service funds provide coverage up to a maximum of \$150,000 for each general liability, police liability or property claim, with no loss fund. The internal service funds also provide coverage up to \$150,000 for any settlement, with all attorney fees being covered under the insurance policy for public officials and employee liability claims, up to \$300,000 for each worker's compensation claim, and up to \$25,000 for each professional liability claim. The County purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the County participate in the program and make payments to the internal service funds based on rates established to fund estimated actual liabilities. The total claims liability of \$1,970,000 reported in the funds at December 31, 2003, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The County has estimated its ultimate liability based upon estimates of known claims and actuarial based computations of incurred but not reported claims. The claims liability is presented at its net present value using an annual discount rate of 6%.

Changes in the funds' claims liability amount for the past two years were:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 1,697,000	\$ 1,614,000
Current year claims and changes in estimates	15,285,895	13,250,970
Claims paid	<u>(15,012,895)</u>	<u>(13,167,970)</u>
Balance at end of year	<u>\$ 1,970,000</u>	<u>\$ 1,697,000</u>

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Component units participate in the County's self-insurance program, except for the Road Commission, which purchases commercial insurance for health care claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to property loss, torts, and errors and omissions. The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

In 2001 and prior years, the Road Commission was uninsured for workers' compensation claims. Open claims for those years were paid during 2002 as summarized below. Effective January 1, 2002, the Road Commission became a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred on or after January 1, 2002.

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ -	\$ 20,861
Current year claims and changes	-	-
in estimates	-	50,000
Claims payments	-	(70,861)
Balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the County.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

C. Property Taxes

The County property tax is levied each December 1 on the assessed valuation of property located in the County as of the preceding December 31. On December 1, the property tax assessment is an enforceable lien on property and is payable by the last day of the following February. Assessed values are established annually by the County and are equalized by the State of Michigan at an estimated 50% of current market value.

In March 1994, Michigan voters approved Proposal A, which limits annual increases in assessed values to the lesser of 5% or the rate of inflation with assessed value reverting to 50% of true cash value when the property is sold. Real property in Washtenaw County for the 2002 levy (to fund 2003 operations) was assessed and equalized at \$11.8 billion, representing 50% of estimated current market value. The County operating tax rate was at the maximum rate of 4.7174 mills, as adjusted by the Headlee Amendment to the State of Michigan Constitution. The County also had a voter approved tax of 0.4900 mills for parks and recreation purposes and 0.2500 mills for purchase of selected natural areas in the County.

By agreement with various taxing authorities, the County purchases at face value the real property taxes receivable returned delinquent each March 1. These receivables (\$7.3 million at December 31, 2003) are pledged to a bank for payment of tax anticipation notes payable, the proceeds of which are used to liquidate the amounts due the General Fund and various other funds and governmental agencies for purchase of the receivables. Subsequent collections on delinquent taxes receivable, plus interest and collection fees thereon, and investment earnings are used to extinguish the debt.

D. Joint Venture

In 1999, the County entered into an agreement with the University of Michigan (the "University") to form the *Washtenaw Community Health Organization (WCHO)* for the purpose of establishing an integrated health care delivery system to provide mental health, substance abuse, and primary and specialty health care to Medicaid, low income and indigent consumers as defined by the Michigan Mental Health Code and Medicaid eligibility guidelines.

WCHO is governed by a 12-member board; both the County and University appoint six members each. Under the agreement, WCHO replaced the County as the contractor for the mental health and substance abuse managed care contracts with the State of Michigan. This change was effective October 1, 2000, and currently provides the primary source of funding for WCHO.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The agreement also provides that the County and University will share equally in any gains or losses generated by WCHO, subject to certain limitations. However, because the agreement prohibits the distribution of any assets until WCHO is terminated and/or dissolved (and there are specific restrictions on the use of gains under the managed care contracts with the State of Michigan), WCHO is deemed to be a “joint venture with no equity interest.” Accordingly, no amounts are reported in the accompanying financial statements for the County’s equity in WCHO.

WCHO has a September 30 fiscal year end. Financial information may be obtained by writing to WCHO at P.O. Box 917, Ypsilanti, Michigan 48197.

E. Jointly Governed Organizations

The *Washtenaw Central Dispatch and Technology Authority (WCDTA)* was originally established to provide centralized public safety dispatching for law enforcement, fire and emergency medical services to the Sheriff’s Department, the Michigan State Police, Northfield Township Police, Huron Valley Ambulance, the townships of Ann Arbor, Augusta, Manchester, Northfield, Salem, Scio and Superior, and Dexter Area Fire Department. The organization is governed by a 12-member board. There was no financial activity for the Authority for the year ended December 31, 2003. Public safety dispatching services were provided by the County during 2003.

The County has no significant influence over the management of WCDTA. Therefore, WCDTA is not included in the County’s financial report.

The *Washtenaw County 800 MHz Communications Consortium* (the Consortium) was formed to provide for the ownership, governance and management of a public safety/public service communications system that delivers reliable, interoperable wireless communications throughout Washtenaw County. The County, as well as the cities of Ann Arbor, Saline, and Milan, are charter members of the Consortium. The Consortium is governed by an executive board.

The County has no significant influence over the management of the Consortium. Financial accountability is limited to the extent of any appropriated operating grant. Therefore, the Consortium is not included in the County’s financial report. Separate financial statements for the Consortium may be obtained by writing to the Washtenaw County Finance Department, 220 North Main Street, Ann Arbor, Michigan 48107 or by calling (734) 222-6750.

The *Washtenaw County HOME Consortium* (the Consortium) was formed pursuant to the Urban Cooperation Act (MCLA 124.501) for the purpose of cooperating with other local governments in housing assistance activities under the HOME program (Home Investment Partnership Program) and for the purpose of formulating and submitting a consolidated plan in order to receive a HOME program allocation from the U.S. Department of Housing and Urban Development (HUD).

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The City of Ypsilanti and Washtenaw County are members of the Consortium. The Consortium is governed by a 3-member board and is primarily advisory in nature. The County serves as lead entity for the Consortium. The County has been granted financial and fiscal authority and responsibility for all funds received. The County is the official recipient of the HOME program dollars from HUD. The HOME program is included in the audit of Washtenaw County.

Financial information may be obtained by writing to the Washtenaw County Finance Department, 220 North Main Street, Ann Arbor, Michigan 48107 or by calling (734) 222-6750.

F. Pension and Other Postemployment Benefits

The County provides pension and postemployment health care benefits to eligible employees through the following plans:

County administered:

Employees Retirement System (ERS)

Money Purchase Pension Plan (MPPP)

Voluntary Employees Beneficiary Association (VEBA)

Municipal Employees Retirement System of Michigan (MERS)

The County issues publicly available financial reports for ERS, MPPP and VEBA that include financial statements and required supplementary information, as applicable. These financial reports may be obtained by writing to Washtenaw County Finance Department, 220 North Main Street, Ann Arbor, Michigan 48107 or by calling (734) 222-6750.

Information regarding the aforementioned plans is presented below.

County Administered Plans – Plan Descriptions, Funding Policies and Other Disclosures

Employees Retirement System (ERS). The County has a single-employer defined benefit retirement plan which provides pension and post employment healthcare benefits to all full-time, regular employees hired prior to January 1, 1989. County Ordinances assign the authority to establish and amend benefit provisions and contribution requirements to the County Board of Commissioners, subject to the terms of collective bargaining agreements. Plan members are required to contribute 5% of their annual covered salary. The County is required to contribute at an actuarially determined rate; the current rate is 15.15% of annual covered payroll.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

The County's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution / cost	\$ 1,651,416
Contributions made	1,651,416
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ -

The annual required contribution for the current year was determined as part of the December 31, 2001, actuarial valuation 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. 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. The latest actuarial valuation was performed as of December 31, 2002.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 1,449,631	100%	\$ -
12/31/02	1,456,780	100%	-
12/31/03	1,651,416	100%	-

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

Money Purchase Pension Plan (MPPP). The Washtenaw County Money Purchase Pension Plan (MPPP; the "Plan") is a defined contribution pension plan established and administered by Washtenaw County to provide benefits at retirement to all full-time, regular employees of the County hired on or after January 1, 1989. Plan members are required to contribute between 6% and 7.5% of covered salary depending on the particular collective bargaining unit. The County is required to match the plan member contributions. Plan provisions and contribution requirements are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County's various collective bargaining agreements. The employer and employee contributions totaled approximately \$3.0 million and \$2.7 million, respectively, for the year ended December 31, 2003.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Voluntary Employees Beneficiary Association (VEBA). The Washtenaw County Voluntary Employees Beneficiary Association (VEBA; the “Plan”) is a single-employer defined benefit post employment healthcare plan established by Washtenaw County to provide medical and healthcare benefits for retirees and their beneficiaries. Eligible participants include any retirees who receive pension benefits under one of the County’s pension plans. Plan provisions are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County’s various collective bargaining agreements.

The Plan is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of a VEBA.

Subject to certain age and length of service requirements, eligible participants receive the same medical insurance coverage under the Plan as was in effect at the time of their employment. At such time that participants become Medicare eligible, the benefits under the Plan change to Medicare Supplemental coverage.

Employer contributions to fund the Plan are currently on a pay-as-you-go basis with additional contributions intended to build the fund for purposes of paying future benefits. Employer contributions for the year ended December 31, 2003 were \$3,971,889. Although an actuarial valuation of the Plan was completed during 2003, the County has determined that it will establish an annual employer contribution rate using the actuarial valuation as a reference, but not as a definitive requirement.

In general, employees are not required to contribute to the Plan. However, provisions of the ERS Plan allow that required contributions to the healthcare component of that Plan, equal to 7% of annual covered compensation, may be directed to the VEBA, either in whole or in part, at the County’s discretion. Accordingly, employee contributions totaling \$138,133 were directed to the VEBA in 2003. Any such contributions in the future will likewise be subject to the discretion of the Washtenaw County Board of Commissioners and the ERS Board, as well as any applicable collective bargaining agreements.

As of December 31, 2003, 26 members received healthcare benefits under the Plan, and the cost of those benefits amounted to \$126,920.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

County Administered Plans – Summary of Significant Accounting Policies

The financial statements of ERS, MPPP and VEBA are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The County's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

Municipal Employees Retirement System of Michigan

The County participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits for certain full-time Washtenaw County Sheriff Department employees. The System is administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The County is required to contribute at an actuarially determined rate; the current rate is 5.59% of annual covered payroll. Participating employees are required to contribute 5.0% of their annual covered payroll. The contribution requirements of the County are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the County, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the County.

For the year ended December 31, 2003, the County's annual pension cost of \$774,093 for MERS was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the latest actuarial valuation, was 30 years.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 650,166	100%	\$ -
12/31/02	783,326	100%	-
12/31/03	774,093	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/95	\$ 2,435,138	\$ 3,283,020	\$ 847,882	74%	\$ 4,480,912	19%
12/31/96	3,085,321	4,802,223	1,716,902	64%	5,328,994	32%
12/31/97	3,993,680	5,664,736	1,671,056	71%	6,757,788	25%
12/31/98	5,553,259	6,585,312	1,032,053	84%	7,300,718	14%
12/31/99	7,104,392	8,961,586	1,857,194	79%	8,736,898	21%
12/31/00	8,825,067	10,626,535	1,801,468	83%	9,571,961	19%
12/31/01	10,576,339	12,361,200	1,784,861	86%	11,020,092	16%
12/31/02	12,389,117	15,438,644	3,049,527	80%	13,046,728	23%

Component Unit

The Road Commission participates in MERS, an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. The Road Commission's MERS plan is separate from that of the County's. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by resolution of the Road Commission Board.

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2003, the Road Commission's annual pension cost of approximately \$610,255 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include: (a) an 8.0% investment rate of return; (b) projected salary increases of 4.5% to 8.7% per year, which include an inflation component of 4.5%; and (c) no post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years. Employees are required to contribute 5.0% of their annual covered payroll.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 255,130	100%	\$ -
12/31/02	213,485	100%	-
12/31/03	610,255	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/98	\$ 17,646,976	\$ 18,438,632	\$ 791,656	96%	\$ 4,911,946	16%
12/31/99	19,916,284	19,652,840	(263,444)	101%	5,557,826	0%
12/31/00	21,416,609	21,954,492	537,883	98%	5,393,251	10%
12/31/01	22,474,326	23,152,354	678,028	97%	5,761,249	12%
12/31/02	22,566,839	27,539,205	4,972,366	82%	6,054,035	82%

WASHTENAW COUNTY

NOTES TO FINANCIAL STATEMENTS

G. Restatements

The beginning fund balance of the General Fund was decreased by \$314,561 to correct for certain prior year revenue and expenditure recognition errors. This resulted in a like restatement to the beginning net assets of governmental activities in the government-wide statement of activities.

In addition, the beginning net assets of governmental activities was also decreased by \$685,608 to properly recognize prior year capital leases payable.

H. Subsequent Events

In January 2004, the County issued \$3,535,000 of general obligation refunding bonds to advance refund the callable portion of the 1998 Series B general obligation bonds amounting to \$3,360,000.

In March 2004, the County issued \$4,300,000 of general obligation refunding bonds to advance refund the callable portions of the 1992 and 1998 Series A general obligation bonds amounting to \$3,980,000.

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