

City of Warren Police and Fire Retirement System

**Financial Report
with Supplemental Information
December 31, 2007**

City of Warren Police and Fire Retirement System

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Independent Auditor's Report

To the Retirement Commission
City of Warren Police and Fire
Retirement System

We have audited the accompanying basic financial statements of City of Warren Police and Fire Retirement System (a component unit of the City of Warren, Michigan) as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Police and Fire Retirement Commission of the City of Warren. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of City of Warren Police and Fire Retirement System as of December 31, 2007 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of funding progress and employer contributions, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental 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 required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 13, 2008

City of Warren Police and Fire Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	<u>2007</u>	<u>2006</u>
Total assets	\$ 376,292,530	\$ 381,134,711
Total liabilities*	<u>49,146,450</u>	<u>67,750,243</u>
Assets held in trust for pension benefits	<u>\$ 327,146,080</u>	<u>\$ 313,384,468</u>
Net investment gain*	\$ 26,708,528	\$ 34,292,170
Contributions:		
Employee	676,554	532,753
Employer	6,344,340	5,821,391
Employer contributions made on behalf of employees	1,129,620	1,127,754
Retiree pension and annuity benefits	18,612,863	16,399,260
Member refunds and annuity withdrawals	2,273,106	2,463,382
Benefits paid, refunds, and withdrawals in excess of contributions	12,735,455	11,380,744
Ratio of benefits paid to contributions	2.56	2.52
General and administrative expenses	\$ 186,461	\$ 139,018
Net increase in net assets held in trust	13,761,612	22,772,408

* Includes securities lending transactions

City of Warren Police and Fire Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

City of Warren Police and Fire Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The City of Warren Police and Fire Retirement System has established asset allocation policies, which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation (in percentages) as of December 31, 2007:

	<u>Percentage</u>
Large Cap Domestic Equities	34
Small Cap Domestic Equities	13
Mid Cap Core	5
International Equities	15
Fixed Income Securities	26
Cash	3
Other	4

Investment Results

The stock market, as measured by the S&P 500 Index, increased 5.49 percent, on top of a 2006 gain of 15.80 percent. The Lehman Brothers Government/Credit Index returned 7.26 percent. The System experienced an overall gain of 8.18 percent on its investment portfolios primarily due to positive moves in the market value of stocks. The System's equity portfolio returned 9.25 percent and the fixed income portfolio added 5.44 percent in 2007.

While this year's total fund investment return is encouraging, it must be considered in a longer-term context. The asset allocation of the fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

Contacting the System's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the System's office at One City Square, Warren, Michigan 48093 or call (586) 574-4568.

City of Warren Police and Fire Retirement System

Statement of Plan Net Assets December 31, 2007

Assets

Cash and cash equivalents (Note 5)	\$ 286,478
Accrued interest and dividends receivable	1,195,597
Investments (Note 5):	
U.S. government obligations	16,488,335
U.S. government agencies' notes and debentures	28,108,978
Corporate and other bonds and securities	37,963,524
Equities	211,515,562
Private equity	1,793,595
Short-term cash management funds	10,190,758
Equity mutual funds	7,520,175
Fixed-income mutual funds	3,338,296
Real estate investment trusts	6,128,807
Hedge funds	2,358,746
Distressed debt recovery fund	1,434,113
Mezzanine debt financing	939,792
Securities lending short-term collateral bank investment pool	<u>47,029,774</u>
Total investments	<u>374,810,455</u>
Total assets	376,292,530

Liabilities

Due to City of Warren - General Fund	117,867
Amounts due broker under securities lending agreement	47,029,774
Accounts payable:	
Money managers - Net	1,414,366
Other	<u>584,443</u>
Total liabilities	<u>49,146,450</u>

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the additional information)

\$ 327,146,080

City of Warren Police and Fire Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2007

Additions

Investment income:	
Interest and dividends	\$ 9,221,358
Net appreciation in fair value of investments	18,975,749
Less investment expenses	<u>(1,735,263)</u>
Net investment income	26,461,844
Securities lending income:	
Interest and fees	3,044,671
Less borrower rebates and bank fees	<u>(2,797,987)</u>
Net securities lending income	246,684
Contributions:	
Employee contributions	676,554
Employer contributions	6,344,340
Employer contributions made on behalf of employees (Note 3)	<u>1,129,620</u>
Total additions	34,859,042

Deductions

Retirees' pension benefits	18,612,863
Member refunds and withdrawals	2,273,106
Incentive bonuses	25,000
Administrative expenses	<u>186,461</u>
Total deductions	<u>21,097,430</u>

Net Increase 13,761,612

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>313,384,468</u>
End of year	<u><u>\$ 327,146,080</u></u>

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2007

Note 1 - Significant Accounting Policies

City of Warren Police and Fire Retirement System (the "System") is the administrator of a single-employer public employees' retirement system that covers substantially all police and fire employees of the City of Warren, Michigan. The financial statements of the System are also included in the combined financial statements of the City of Warren (the "City") as a pension trust fund.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by city ordinance and negotiation with the police and fire collective bargaining units. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 421 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 370 current active employees.

Note 3 - Contributions

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay pension benefits when due.

Police and fire employment contracts provide for direct employee pension contributions of 1 percent of payroll for all fire employees and for police employees hired prior to July 1, 2000 and 5 percent of payroll for all police employees hired after July 1, 2000. In addition, the agreements provide that City contributions, equal to 4 percent of payroll, be made on behalf of all fire employees and the police employees hired prior to July 1, 2000. Under the terms of the contracts, these employer contributions made on behalf of the employees are effectively treated as direct employee contributions and are, therefore, recorded in the reserved net asset balance for employee contributions.

Administrative costs of the System are financed through investment earnings.

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2007

Note 4 - Reserves

As of December 31, 2007, the System's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 19,485,345
Reserve for retired benefit payments	187,681,250

Note 5 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The System's deposits and investment policies are in accordance with statutory authority.

As permitted by state statutes and under the provisions of securities lending authorization agreements, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's securities custodians manage the securities lending program and receive cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan of not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2007, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the securities custodians. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or securities custodians.

All securities loans can be terminated on demand by either the System or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of the investments held by the investment pool as of December 31, 2007 was 128 days. Because loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2007, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as of December 31, 2007 was \$49,140,025 and \$47,029,774, respectively.

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2007

Note 5 - Deposits and Investments (Continued)

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had deposits of \$286,478, of which \$200,000 is covered by federal depository insurance. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day or less maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	Less Than 1	1-5 years	6-10 years	More Than 10
Asset backed	\$ 1,758,598	\$ -	\$ 388,245	\$ 36,121	\$ 1,334,232
Corporate - Bonds	27,297,118	1,374,491	7,560,672	11,342,397	7,019,558
Corporate - CMO	1,695,739	-	143,480	-	1,552,258
Corporate - Private placement	2,626,616	396,154	849,226	547,126	834,110
Foreign - Bonds	3,786,389	229,596	995,033	1,793,230	768,531
Foreign - Gov't	66,367	-	5,430	-	60,936
Municipal - Bonds	9,926	-	9,926	-	-
U.S. Gov't - Agency	14,162,895	-	5,168,863	8,486,773	507,259
U.S. Gov't - CMO	1,144,544	-	-	-	1,144,544
U.S. Gov't - Mortgage backed	13,813,604	-	-	10,980	13,802,624
U.S. Gov't - TIPS	474,828	94,665	47,457	285,559	47,148
U.S. Gov't - Treasuries, notes, and bonds	16,656,046	-	9,881,032	3,848,826	2,926,188

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2007

Note 5 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Fair Value	Rating	Rating Organization
\$ 28,508,000	AAA	S&P
7,012,000	AA	S&P
14,047,000	A	S&P
12,945,000	BBB	S&P
336,000	BB	S&P
9,000	B	S&P
30,835,000	NR	S&P

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency - denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

Security	Foreign Currency	Fair Value
Foreign bonds	Euro	\$ 340,032
Foreign stocks	Euro	12,559,298
	Swiss Frank	2,426,456
	Yen	6,824,718
	UK Pound	8,075,531
	Hong Kong Dollar	3,163,484
	Israeli Shekel	514,331
	Norwegian Krone	570,048
	Swedish Krona	304,417

City of Warren Police and Fire Retirement System

Notes to Financial Statements December 31, 2007

Note 5 - Deposits and Investments (Continued)

Security	Foreign Currency	Fair Value
Foreign stocks (Continued)	Cyprus Pound	\$ 399,144
	Indonesian Rupiah	539,900
	Luxembourg Franc	622,138
	Singapore Dollar	233,073

Note 6 - Risk Management

The System's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System has commercial insurance for such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Required Supplemental Information

City of Warren Police and Fire Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (b-a)	Funded Ratio (Percentage) (a/b)	Valuation Payroll	Unfunded AAL as a Percentage of Valuation Payroll
12/31/01	\$ 322,076,923	\$ 249,131,827	\$ (72,945,096)	129.28	\$ 28,469,158	-
12/31/02	305,839,164	254,162,580	(51,676,584)	120.30	28,352,146	-
12/31/03	288,185,499	263,489,300	(24,696,199)	109.40	29,400,497	-
12/31/04	277,076,691	283,888,444	6,811,753	97.60	30,306,876	22.50
12/31/05	279,654,923	303,319,483	23,664,560	92.20	30,155,774	78.50
12/31/06	300,703,399	322,711,074	22,007,675	93.20	29,425,088	74.80

City of Warren Police and Fire Retirement System

Required Supplemental Information Schedule of Employer Contributions

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, is as follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	0.1%-3.0%
*Includes inflation at	4.5%
Cost of living adjustment	None

<u>Years Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2002	\$ 3,704,792	100.00
2003	1,297,595	100.00
2004	1,895,672	100.00
2005	4,280,739	100.00
2006	6,949,145	100.00
2007	7,473,960	100.00

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

**Report to the Board of Trustees
December 31, 2007**

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

We have recently completed our audit of the basic financial statements of the City of Warren Police and Fire Retirement Systems and Health Benefits Plan (the "Plans") for the year ended December 31, 2007. In addition to our audit report, we are providing the following report on internal control and results of the audit which impact the Plans:

	<u>Page</u>
Report on Internal Control	1-2
Results of the Audit	3-5

We are grateful for the opportunity to be of service to the Plans. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

June 13, 2008

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Report on Internal Control

June 13, 2008

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Plans' financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Warren Police and Fire Retirement Systems and Health Benefits Plan as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Plans' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be significant deficiency.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

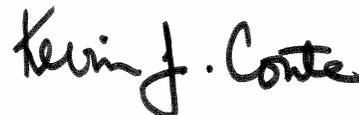
- In previous years, a liability has been recorded in the Health Benefits Plan for an estimate of claims incurred but not yet reported related to health insurance claims. In the current year, as this amount was an estimated liability, it was inadvertently left out of the trial balance at year end and an auditor adjustment was required to record the liability of \$708,436. The Plan was aware of the estimate and needed some further guidance on the proper accounting treatment related to the estimate. The treatment has been discussed with the accountant and will be booked on a regular basis going forward.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kevin J. Conte, Partner

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Results of the Audit

June 13, 2008

To the Board of Trustees
City of Warren Police and Fire
Retirement Systems and Health Benefits Plan

We have audited the financial statements of the Plans for the year ended December 31, 2007 and have issued our report thereon dated June 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letters dated March 17, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of City of Warren Police and Fire Retirement Systems and Health Benefits Plan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 27, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Plans are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

We noted no transactions entered into by the Plans during the year for which there is a lack of authoritative guidance.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- In previous years, a liability has been recorded in the Health Benefits Plan for an estimate of claims incurred but not yet reported related to health insurance claims. In the current year, as this amount was an estimated liability, it was inadvertently left out of the trial balance at year end and an auditor adjustment was required to record the liability of \$708,436. The Plan was aware of the estimate and needed some further guidance on the proper accounting treatment related to the estimate. The treatment has been discussed with the accountant and will be booked on a regular basis going forward.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 13, 2008.

City of Warren Police and Fire Retirement Systems and Health Benefits Plan

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

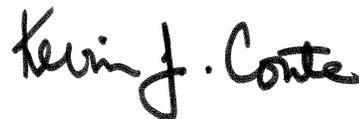
Other Audit Findings or Issues

In the normal course of our professional association with the Plans, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Plans' auditors.

This information is intended solely for the use of the board of trustees and management of the Plans and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kevin J. Conte, Partner



Pamela L. Hill