CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Financial Statements

For The Year Ended
June 30, 2004

Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

RECEIVED
DEPT. OF TREASURY
DEC - 6 2004
LOCAL AUDIT & FINANCE DIV.

Local Government Type	Local Government Name	County
[ ] City [ ] Township [ ] Village [x] Other	City of Ann Arbor Retiree Health Care Benefits Plan and Trust	Washtenaw

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/04	10/22/04	12/03/04

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

[ ] Yes [x] No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

[ ] Yes [x] No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

[ ] Yes [x] No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

[ ] Yes [x] No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

[ ] Yes [x] No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

[ ] Yes [x] No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

[ ] Yes [x] No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

[ ] Yes [x] No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

[ ] Yes [x] No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)			
REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address	City	State	Zip
5800 GRATIOT, PO BOX 2025	SAGINAW	MI	48605
Accountant Signature			
Rehmann Robson			

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 22, 2004

To the Board of Trustees of the City of Ann Arbor
Retiree Health Care Benefits Plan and Trust
Ann Arbor, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund*** as of June 30, 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund of the City of Ann Arbor and do not purport to, and do not present fairly the financial position of City of Ann Arbor, Michigan as of June 30, 2004, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net assets of the City of Ann Arbor Retiree Health Care Benefits Plan and Trust Fund as of June 30, 2004, and changes in plan net assets thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rehmann Robson

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FINANCIAL STATEMENTS

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST
Statement of Plan Net Assets
June 30, 2004
(With Comparative Amounts as of June 30, 2003)

	2004	2003
Assets		
Equity in pooled cash and investments	$ 1,568,853	$ 2,458,981
Investments, at fair value	36,137,602	24,636,388
Accrued interest receivable	123,462	84,362
Due from other funds of the City of Ann Arbor	68,116	-
Total assets	37,898,033	27,179,731
Liabilities		
Accounts payable	32,998	28,225
Due to other funds of the City of Ann Arbor	254,446	-
Total liabilities	287,444	28,225
Net Assets Held in Trust for Healthcare Benefits	**$ 37,610,589**	**$ 27,151,506**

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

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2004
(With Comparative Amounts for the Year Ended June 30, 2003)

	2004	2003
Additions		
Contributions:		
Employer	$ 7,803,872	$ 6,866,489
Investment income:		
Interest and dividends	974,327	723,354
Appreciation in fair value of investments	1,829,217	618,922
Total investment income	2,803,544	1,342,276
Less investment expense	139,990	108,326
Net investment income	2,663,554	1,233,950
Total additions to net assets	10,467,426	8,100,439
Deductions		
Administrative expense	8,343	18,475
Increase in net assets	10,459,083	8,081,964
Net assets held in trust for healthcare benefits, beginning of year	27,151,506	19,069,542
Net assets held in trust for healthcare benefits, end of year	**$ 37,610,589**	**$ 27,151,506**

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

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Notes To Financial Statements

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1. PLAN DESCRIPTION

The City of Ann Arbor Retiree Health Care Benefits Plan and Trust (the "Plan") is a single-employer defined benefit postemployment healthcare plan established and administered by the City of Ann Arbor through the City of Ann Arbor Board of Trustees of the Retiree Health Care Benefits Plan and Trust to provide health and life benefits for retirees and their beneficiaries.

The Plan is funded by contributions from the City of Ann Arbor with the intention of reaching a fully funded status within the next several years, under a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code, which allows for the formation of a VEBA. This fund is included as a pension and other employee benefits trust fund in the City's financial statements.

Members are not required to contribute to the Plan. Employer contributions for the year ended June 30, 2004 were approximately $7,804,000.

Current retiree medical and life benefits are budgeted and paid for out of various City of Ann Arbor departments. The City is reimbursed for these costs pursuant to annual resolutions providing for reimbursement of these costs under Act 28 of Public Acts of 1966, which allows the Employees Retirement System to pay current retiree health and life benefits from investment earnings on employer assets in excess of the actuarial rate of return. This calculation is performed by an actuary annually, and the amount reimbursed is within the maximum amount allowed.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. These statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period that the contributions are due.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

3. INVESTMENTS

The Plan has certain investments which are held by independent investment management companies. Following is a summary of the Plan's investments as of June 30, 2004:

	Fair Value	Cost
Investments at fair value, as determined by quoted market prices:		
Common stocks	$21,579,588	$ 21,553,043
Corporate bonds	14,391,805	14,731,352
Money market funds	166,209	166,209
Total investments	$36,137,602	$36,450,604

Investments are categorized to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan'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 Plan's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the Plan's name. At June 30, 2004, the investments above are classified in Category 1, except for investments in money market funds which are not required to be categorized.

In addition, the Authority participates in the investment pool maintained by the City in the amount of $1,568,853. These investments are considered Category 1 for risk classification.

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