City of Ann Arbor
Retiree Health Care Benefits Plan and Trust

For the Year Ended June 30, 2024

Financial Statements

Rehmann

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CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

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INDEPENDENT AUDITORS' REPORT

October 22, 2024

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the ***City of Ann Arbor Retiree Health Care Benefits Plan and Trust*** (the "Plan"), *a fiduciary component unit of the City of Ann Arbor, Michigan,* as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan, as of June 30, 2024, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with G*overnment Auditing Standards,* we have also issued our report dated October 22, 2024, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The City of Ann Arbor Retiree Health Care Benefits and Trust (the “Plan”) is a single-employer defined benefit postemployment healthcare plan established and administered by the City of Ann Arbor, Michigan (the "City") which provides health and life benefits to eligible retirees and their beneficiaries. The Plan is administered by the City; accordingly, it is included as a fiduciary component unit in the City’s financial statements. The Plan presents this discussion and analysis of its financial performance as an overview of its financial activities for the fiscal year ended June 30, 2024. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements.

Using this Annual Report

The discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are comprised of four components: 1) statements of fiduciary net position, 2) statement of changes in fiduciary net position, 3) notes to the financial statements, and 4) required supplementary information.

- The *statement of fiduciary net position* presents information on all of the Plan's assets and liabilities, with the net of these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

- The *statement of changes in fiduciary net position* presents information showing how the Plan's net position changed during the most recent fiscal year.

- The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

- The *required supplementary information (RSI)* provides additional information that is essential to a full understanding of the data provided in the financial statements. More specifically, the RSI will ultimately provide ten years of data for the schedule of changes in net OPEB liability and related ratios, schedule of contributions, the schedule of investment returns, and related notes.

Management's Discussion and Analysis

Financial Analysis

The net position of the Plan is summarized for the purpose of determining the overall fiscal position. As shown below, the Plan's assets exceeded liabilities by $277,712,068 at the end of the fiscal year.

A comparative analysis of the data is presented below:

	Net Position	
	2024	**2023**
Assets		
Investments, at fair value	$ 277,500,923	$ 249,335,557
Equity in the City's pooled cash and investments	346,989	518,937
Other assets	287,998	328,235
Total assets	278,135,910	250,182,729
Liabilities		
Accrued liabilities	423,842	350,105
Net position - restricted for other postemployment benefits	$ 277,712,068	$ 249,832,624

	Changes in Net Position	
	2024	**2023**
Total additions	$ 43,854,175	$ 38,039,044
Total deductions	15,974,731	14,564,425
Change in net position	27,879,444	23,474,619
Net position, beginning of year	249,832,624	226,358,005
Net position, end of year	$ 277,712,068	$ 249,832,624

When comparing the current fiscal year to the previous, net position increased by $27,879,444. The majority of the increase is due to investment income generated by strong investment performance of the Plan's investment portfolio.

Additional information on the Plan's investments can be found in the notes to the financial statements.

Management's Discussion and Analysis

Contributions

For the year ended June 30, 2024, contributions to the Plan increased by $975,064 primarily due to an increase in healthcare claims covered by plan contributions.

	Contributions	
	2024	2023
Employer	$ 16,315,925	$ 15,340,861

Additional information on the Plan's contributions can be found in the notes to the financial statements.

Economic Factors and Investment Returns

It should be noted that this financial discussion and analysis relates to the financial status of the Plan. The activity of the City's pension plan is are presented in separately issued City of Ann Arbor Employees' Retirement System financial statements.

It is the Plan's purpose to provide long-term benefit payments to its members, and it is through long-term investment strategies that these benefits will be primarily funded. It is recognized that in the short term there will be market fluctuations that may result in negative returns in any given period. Through its investment policy asset allocation, the Board of Trustees positions the portfolio to meet its long-term obligations. In addition, to further maximize investment returns, the Board of Trustees carefully monitors the performance of each of its investment managers and takes necessary corrective action to ensure acceptable investment results. Management believes that the Plan will continue to provide the benefits to participants as it is contractually obligated.

Contacting the City of Ann Arbor Retiree Health Care Benefits Plan and Trust

This financial report is designed to provide a general overview of the Plan's finances and to show accountability for the money it receives and expends. Questions concerning any of the information should be addressed to the City of Ann Arbor Retiree Health Care Benefits Plan and Trust at 532 S. Maple Road, Ann Arbor, MI 48103.

FINANCIAL STATEMENTS

CITY OF ANN ARBOR
RETIREE HEALTH CARE BENEFITS PLAN AND TRUST

Statement of Fiduciary Net Position

June 30, 2024

Assets	
Investments, at fair value:	
Equities	$ 164,141,665
Fixed income	51,341,420
Other	62,017,838
Total investments	277,500,923
Equity in City of Ann Arbor pooled cash and investments	346,989
Accrued interest and dividends	287,998
Total assets	278,135,910
Liabilities	
Accrued liabilities	423,842
Net position restricted for other postemployment benefits	$ 277,712,068

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 Fiduciary Net Position

For the Year Ended June 30, 2024

Additions	
Investment income:	
From investing activities:	
Net appreciation in fair value of investments	$ 21,897,509
Interest and dividends	5,851,828
Total investment income	27,749,337
Investment management fees	(217,418)
Net investment income from investing activities	27,531,919
From securities lending activities:	
Gross earnings	48,955
Borrower rebates received (paid)	(81,859)
Securities lending fees	39,235
Net investment income from securities lending activities	6,331
Total net investment income	27,538,250
Employer contributions	16,315,925
Total additions	43,854,175
Deductions	
Participant benefits	15,586,298
Administrative expenses	388,433
Total deductions	15,974,731
Change in net position	27,879,444
Net position, beginning of year	249,832,624
Net position, end of year	$ 277,712,068

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

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NOTES TO FINANCIAL STATEMENTS

Notes To Financial Statements

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The City of Ann Arbor Retiree Health Care Benefits Plan and Trust, a voluntary employees beneficiary association (VEBA) (hereinafter referred to as the "Plan" or "VEBA") is a single-employer defined benefit postemployment healthcare plan established and administered by the City of Ann Arbor (the “City”) through a board of trustees to provide health and life benefits to eligible retirees and their beneficiaries. Plan benefit provisions are established and may be amended by the City, subject to the City’s various collective bargaining agreements.

The City of Ann Arbor Employees’ Retirement System Board of Trustees consists of nine members, three are elected (representing fire, police, and general City employees), five are appointed by the City Council of the City of Ann Arbor and one is Chief Financial Officer of the City of Ann Arbor, who serves as ex-officio member. The Retirement System board governs activity for both the Employees' Retirement System and the Retiree Health Care Benefits Plan and Trust.

The Plan is funded by actuarially determined contributions from the City, under a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code, which allows for the formation of such a plan. The VEBA is included as a pension and other employee benefits trust fund in the City’s annual comprehensive financial report.

Plan membership. Membership of the Plan consisted of the following at June 30, 2023, the date of the latest actuarial valuation:

Retirees and surviving spouses currently covered	1,123
Vested active participants	728
Total membership	1,851

Benefits provided. The Plan provides certain healthcare and life insurance benefits for eligible retired employees and their dependents in accordance with the Ann Arbor City Code Chapter 21. Substantially all the City’s employees may become eligible for these benefits if they retire directly from City employment. These and similar benefits for active employees are provided by various insurance companies. Health insurance benefits are provided through an administrative service contract under which the City reimburses the administrator for claims paid plus an administration fee. Plan benefit provisions are established and may be amended by the City, subject to the City’s various collective bargaining agreements.

Contributions. The Plan is funded by actuarially determined contributions from the City, under a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code, which allows for the formation of such a plan. For the year ended June 30, 2024, the City’s average contribution rate was 24.8% of covered-employee payroll. Plan members are not required to contribute to the plan.

The contribution requirements of Plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the actuary. For fiscal year ended June 30, 2024, the City contributed approximately $16.3 million to the plan, including $15.6 million for current premiums and an additional $0.7 million to prefund benefits.

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The Plan's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period that the contributions are due and when the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the trust agreement.

Valuation of Investments. The Plan's investments are stated at fair value which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the VEBA's governing body, with the assistance of a valuation service; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

Administration. Administrative costs are financed through the Plan's investment earnings.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING

The Plan does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash or equity in the City's pooled cash and investments in the statements of fiduciary net position are composed entirely of amounts held by the City as part of its cash pool. As a result, the insured and uninsured amounts related to these accounts cannot be determined.

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

Investment Allocation Policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by its Board of Trustees. The policy pursues an investment strategy that protects the financial health of the Plan and reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Plan assets will be invested in the broad investment categories and asset classes to achieve the allocation targets following. Recognizing that asset returns may vary, causing fluctuations in the relative dollar value levels of assets within classes, the Plan may not maintain strict adherence to the targets in the short-term, but may allow the values to fluctuate within these ranges. Over the long-term, the Plan will strive to adhere to the given targets as financially practicable and move toward target allocations in a prudent manner consistent with its fiduciary duty.

Notes To Financial Statements

The adopted asset allocation policy as of June 30, 2024, is as follows:

Asset Class	Target Allocation	Allocation Range
Equities		
Domestic equities	33%	27% to 39%
Developed foreign equities	12%	9% to 15%
Emerging markets equities	7%	0% to 10%
Private equities	5%	0% to 8%
	57%	
Fixed income		
Investment grade bonds	10%	5% to 20%
Private debt	7%	0% to 10%
High yield bonds	4%	0% to 6%
TIPS	2%	0% to 5%
	23%	
Other investments		
Real estate	10%	2% to 12%
Infrastructure	7%	0% to 10%
Natural resources	3%	0% to 5%
	20%	
Total investments	100%	

The investment allocation policy will be reviewed periodically to ensure that the objectives and constraints remain relevant. However, the trustees recognize the need for a stable long-term policy for the Plan and major changes to this policy will be made only when significant developments in the circumstances, objectives or constraints of the Plan occur.

Notes To Financial Statements

Investment holdings. The Plan's investments are held by an independent trust company. Following is a summary of the Plan's investments as of June 30, 2024:

	Domestic	Foreign	Total	On Loan
Equities				
Common stock	$ 62,977,633	$ 249,879	$ 63,227,512	$ 636,240
Common stock funds	36,775,533	53,378,160	90,153,693	-
Private equities	10,760,460	-	10,760,460	-
	110,513,626	53,628,039	164,141,665	636,240
Fixed income				
Corporate bond funds	30,233,956	-	30,233,956	-
Fixed income mutual funds	7,700,508	-	7,700,508	-
Index linked government bonds	4,621,690	-	4,621,690	-
Private credit	8,785,266	-	8,785,266	-
	51,341,420	-	51,341,420	-
Other investments				
Infrastructure	4,468,079	13,347,198	17,815,277	-
Real estate funds and REITs	24,892,675	-	24,892,675	-
Real estate - private credit	2,766,547	-	2,766,547	-
Short-term investment funds	16,543,339	-	16,543,339	-
	48,670,640	13,347,198	62,017,838	-
Total investments	$ 210,525,686	$ 66,975,237	$ 277,500,923	$ 636,240

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments in any particular asset class may or may not be consistent with the objectives of the Plan. The investment policy statement specifically indicates permissible asset classes, including high yield fixed income and alternatives, in appropriate target percentages.

Notes To Financial Statements

The Plan's fixed income securities consisted of the following at June 30, 2024:

Corporate bond funds	$ 30,233,956
Fixed income mutual funds	7,700,508
Index linked government bonds	4,621,690
Private credit	8,785,266
Total fixed income	$ 51,341,420

The Plan's investments in corporate bond funds, fixed income mutual funds, index linked government bonds, and private credit (each of which are essentially funds) are not rated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investment policy requires that no more than 5% of the total fund be invested in any one company or governmental agency.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy requires a maximum term to maturity of 30 years for any single fixed income security. The Plan's investment policy does not address weighted average portfolio maturities.

As of June 30, 2024, weighted average maturity of the Plan's corporate bonds was 6.9 years.

Inasmuch as all of the debt or fixed income securities as of June 30, 2024, except for the corporate bonds, are essentially held in funds by the portfolio managers, maturity information is not available.

Rate of Return. For the year ended June 30, 2024, the annual money-weighted rate of return on plan investments, net of investment expenses, was 10.90%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Securities Lending. A contract approved by the Plan's Board of Trustees, permits the Plan 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 Plan's custodial trust company manages the securities lending program and receives securities, cash or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Plan unless the borrower defaults. Collateral is 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.

At year end, the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceeds the amounts the borrowers owe the Plan. The contract with the Plan's custodian requires it to indemnify the Plan if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan.

At June 30, 2024, the total collateral received from borrowers had a fair value of $636,240, all of which was cash.

Notes To Financial Statements

Fair Value Measurements. The Plan categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the Plan's investment manager at the fund level based on a review of the investment's class, structure, and what kind of securities are held in funds. The investment manager will request the information from the fund manager, if necessary.

The Plan had the following recurring fair value measurements as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
Equities				
Common stock	$ 63,227,512	$ -	$ -	$ 63,227,512
Common stock funds	31,226,133	58,927,560	-	90,153,693
Private equities	-	-	10,760,460	10,760,460
	94,453,645	58,927,560	10,760,460	164,141,665
Fixed income				
Corporate bond funds	-	30,233,956	-	30,233,956
Fixed income mutual funds	-	7,700,508	-	7,700,508
Index linked government bonds	-	4,621,690	-	4,621,690
Private credit	-	-	8,785,266	8,785,266
	-	42,556,154	8,785,266	51,341,420
Other				
Infrastructure	-	4,468,079	13,347,198	17,815,277
Real estate funds and REITs	5,191,171	-	19,701,504	24,892,675
Real estate - private credit	-	-	2,766,547	2,766,547
Short-term investment funds	16,543,339	-	-	16,543,339
	21,734,510	4,468,079	35,815,249	62,017,838
Grand Total	$ 116,188,155	$ 105,951,793	$ 55,360,975	$ 277,500,923

Notes To Financial Statements

4. NET OPEB LIABILITY OF THE CITY

The components of the net OPEB liability of the City at June 30, are as follows:

Total OPEB liability	$ 306,944,217
Plan fiduciary net position	277,712,068
City's net OPEB liability	$ 29,232,149
Plan fiduciary net position as a percentage of the total OPEB liability	90.48%

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2023 (and rolled forward to June 30, 2024, the measurement date), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Healthcare cost trend rates	Pre-Medicare 7.5% initial, 3.5% ultimate; post-Medicare 6.25% initial, 3.5% ultimate.
Salary increases	4.01% to 11.11%, dependent on employee group and age
Investment rate of return	6.7% net of OPEB plan investment expense, including inflation

Healthy mortality rates (both pre and post retirement) were based on the Pub-2010 General Employee Mortality Tables, amount-weighted, and projected with mortality improvements using the fully generational MP-2021 projection scale from a base year of 2010. Disabled retirement mortality rates were based on the same mortality tables.

The actuarial assumptions used in the June 30, 2023 GASB statement No. 74 and 75 valuation were based on the results of an actuarial experience study from July 1, 2017 through June 30, 2022.

Notes To Financial Statements

Long-term expected rate of return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation (see the discussion of the Plan's investment allocation policy) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Money-Weighted Rate of Return
Equities			
Domestic equities	33.00%	5.50%	1.82%
Developed foreign equities	12.00%	5.90%	0.71%
Emerging markets equities	7.00%	5.90%	0.41%
Private equities	5.00%	8.20%	0.41%
Fixed Income			
Investment grade bonds	10.00%	1.90%	0.19%
Private debt	7.00%	6.20%	0.43%
High yield bonds	4.00%	3.90%	0.16%
TIPS	2.00%	1.80%	0.04%
Other investments			
Real estate	10.00%	5.10%	0.51%
Infrastructure	7.00%	5.10%	0.36%
Natural resources	3.00%	6.30%	0.19%
	100.00%		5.23%
Inflation			2.80%
Risk adjustments			-1.33%
			6.70%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.7 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Notes To Financial Statements

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the City calculated using the discount rate of 6.7 percent, as well as what the City's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.7 percent) or 1-percentage-point higher (7.7 percent) than the current rate:

	1% Decrease (5.7%)	Current Discount (6.7%)	1% Increase (7.7%)
City's net OPEB liability (asset)	$ 65,713,764	$ 29,232,149	$ (1,155,286)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability of the City calculated using the healthcare cost trend rates, as well as what the City’s net OPEB liability (asset) would be if it were calculated using the healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
City's net OPEB liability (asset)	$ (3,148,512)	$ 29,232,149	$ 67,892,392

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

Schedule of Changes in the City's Net OPEB Liability and Related Ratios
Last Eight Fiscal Years

	Fiscal Year Ended June 30,							
	2024	2023	2022	2021	2020	2019	2018	2017
Change in total OPEB liability								
Service cost	$ 2,121,325	$ 2,309,072	$ 2,721,983	$ 3,070,762	$ 2,169,920	$ 2,623,068	$ 3,331,000	$ 3,071,000
Interest	19,097,874	19,800,931	21,291,056	19,890,079	20,212,994	17,926,505	17,099,000	17,058,000
Changes of benefit terms	-	-	-	29,557	-	-	-	-
Differences between expected and actual experience	(5,687,970)	(26,065,585)	(28,294,707)	1,826,175	8,453,222	23,161,053	-	-
Changes of assumptions	15,223,900	12,844,344	779,616	13,556,526	(22,907,010)	1,500,000	-	-
Other changes	-	-	-	-	-	-	1,181,000	-
Benefit payments	(15,586,298)	(14,298,012)	(13,036,696)	(14,516,628)	(11,468,614)	(13,171,225)	(14,273,000)	(13,207,000)
Net change in total OPEB liability	15,168,831	(5,409,250)	(16,538,748)	23,856,471	(3,539,488)	32,039,401	7,338,000	6,922,000
Total OPEB liability, beginning	291,775,386	297,184,636	313,723,384	289,866,913	293,406,401	261,367,000	254,029,000	247,107,000
Total OPEB liability, ending (a)	306,944,217	291,775,386	297,184,636	313,723,384	289,866,913	293,406,401	261,367,000	254,029,000
Change in plan fiduciary net position								
Employer contributions	16,315,925	15,340,861	13,797,260	15,625,495	12,241,536	15,987,768	17,724,000	16,667,000
Net investment income (loss)	27,538,250	22,698,183	(18,590,756)	49,728,641	6,722,726	11,824,566	11,114,000	17,225,000
Benefit payments and refunds	(15,586,298)	(14,298,012)	(13,036,696)	(14,516,628)	(11,468,614)	(13,171,225)	(14,273,000)	(13,207,000)
Administrative expense	(388,433)	(266,413)	(156,737)	(142,053)	(177,731)	(116,900)	(97,000)	(130,000)
Other	-	-	-	-	-	353	-	-
Net change in plan fiduciary net position	27,879,444	23,474,619	(17,986,929)	50,695,455	7,317,917	14,524,562	14,468,000	20,555,000
Plan fiduciary net position, beginning,	249,832,624	226,358,005	244,344,934	193,649,479	186,331,562	171,807,000	157,339,000	136,784,000
Plan fiduciary net position, ending (b)	277,712,068	249,832,624	226,358,005	244,344,934	193,649,479	186,331,562	171,807,000	157,339,000
City's net OPEB liability, ending (a)-(b)	$ 29,232,149	$ 41,942,762	$ 70,826,631	$ 69,378,450	$ 96,217,434	$ 107,074,839	$ 89,560,000	$ 96,690,000
Plan fiduciary net position as a percentage of the total OPEB liability	90.48%	85.62%	76.17%	77.89%	66.81%	63.51%	65.73%	61.94%
Covered-employee payroll	$ 65,870,440	$ 63,136,097	$ 62,187,947	$ 60,232,543	$ 57,970,915	$ 57,077,636	$ 55,458,000	$ 53,583,000
City's net OPEB liability as a percentage of covered payroll	44.38%	66.43%	113.89%	115.18%	165.98%	187.60%	161.49%	180.45%

See notes to required supplementary information.

Required Supplementary Information

Schedule of City Contributions
Last Eight Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2017	$ 11,168,000	$ 16,667,000	$ (5,499,000)	$ 53,583,000	31.1%
6/30/2018	9,683,000	17,724,000	(8,041,000)	55,458,000	32.0%
6/30/2019	9,234,000	15,987,768	(6,753,768)	57,077,636	28.0%
6/30/2020	12,129,387	12,241,536	(112,149)	57,970,915	21.1%
6/30/2021	11,663,630	15,625,495	(3,961,865)	60,232,543	25.9%
6/30/2022	13,001,479	13,797,260	(795,781)	62,187,947	22.2%
6/30/2023	9,403,669	15,340,861	(5,937,192)	63,136,097	24.3%
6/30/2024	7,085,771	16,315,925	(9,230,154)	65,870,440	24.8%

See notes to required supplementary information.

Required Supplementary Information

Schedule of Investment Returns

Last Eight Fiscal Years

Fiscal Year Ended June 30,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2017	11.78%
2018	7.21%
2019	6.83%
2020	3.52%
2021	25.68%
2022	-7.69%
2023	9.94%
2024	10.90%

See notes to required supplementary information.

Notes to Required Supplementary Information

OPEB Information

GASB 74 was implemented in fiscal year 2017. These schedules are being built prospectively. Ultimately, 10 years of data will be presented.

Notes to the Schedule of Changes in Net OPEB Liability and Related Ratios

Changes in assumptions	The significant changes in assumptions for the fiscal year ended June 30, 2024, were primarily related to changes in the healthcare cost trend rates.
	The significant changes in assumptions for the fiscal year ended June 30, 2023, were primarily related to revised assumptions adopted by the Board pursuant to the five-year experience study covering the period July 1, 2017 to June 30, 2022 and a decrease in the discount rate from 6.8% to 6.7%.
	The significant changes in assumptions for the fiscal year ended June 30, 2022, were primarily related to changes in the healthcare cost trend rates and a decrease in the discount rate from 6.9% to 6.8%.
	The significant changes in assumptions for the fiscal year ended June 30, 2021, were primarily related to a decrease in the discount rate from 7.0% to 6.9% and updating the mortality tables used from RP-2000 to RP-2014.
	The significant changes in assumptions for the fiscal year ended June 30, 2020, were primarily related to changes in the healthcare cost trend rates.
	The significant changes in assumptions for the fiscal year ended June 30, 2019, were primarily related to changes in the healthcare cost trend rates.

Notes to Schedule of Contributions

Valuation date	Actuarially determined contribution rates are calculated as of June 30 that is 12 months prior to the beginning of the fiscal year for which the contributions are reported (June 30, 2022, for the fiscal year ended June 30, 2024).
Other information	There were no benefit changes during the year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level Dollar
Remaining amortization period	18 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	3.5% average including inflation
Investment rate of return	6.70% net of OPEB plan investment expense
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition
Mortality rates	Post-Retirement: RP-2014 Healthy Annuitant Tables, projected with scale MP-2017 from a base year of 2006
	Pre-Retirement: RP-2014 Healthy Annuitant Tables, projected with scale MP-2017 from a base year of 2006
Health care trend rates	Non-Medicare: Initial trend of 7.5% gradually decreasing to an ultimate trend rate of 3.5% in year 12.
	Medicare: Initial trend of 6.25% gradually decreasing to an ultimate trend rate of 3.5% in year 12.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 22, 2024

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

We have audited, in accordance with the 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, the financial statements of the ***City of Ann Arbor Retiree Health Care Benefits Plan and Trust*** (the "Plan"), *a fiduciary component unit of the City of Ann Arbor, Michigan,* as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated October 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances 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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Robson LLC